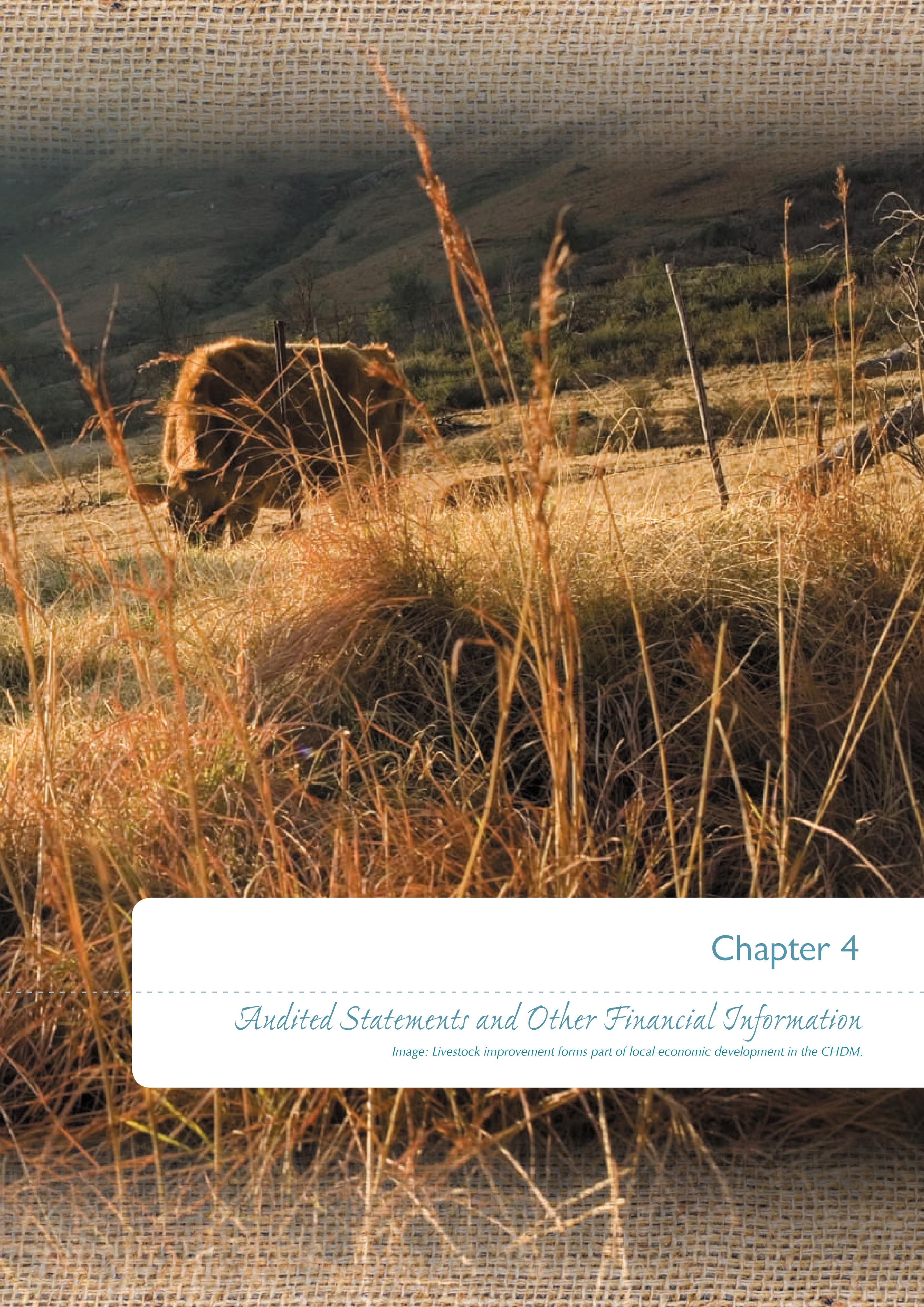

Chapter 4

Audited Statements and Other Financial Information

Image: Livestock improvement forms part of local economic development in the CHDM.

Chief Financial Officer
Mr. Jonny Lynch

Annual Financial Statements for the year ended 30 June 2010

Report of the Chief Financial Officer

1. INTRODUCTION

It gives me great pleasure to present the financial position of the Chris Hani District Municipality at 30 June 2010 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practices (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2009/2010 financial period is set out in Directive 4 and Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2010 indicates an increase in Net Assets, and an increase in Non-current Liabilities and in Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of identifying, componentising and measuring immovable assets. The increase in Non-current Liabilities is primarily as a result of additional Long-term Loans being taken up for infrastructure expansion and refurbishment and an increase in Retirement Benefit Liabilities.

2. KEY FINANCIAL INDICATORS

The following indicators give some insight into the financial results of the year under review. No figures are provided for the previous year because of the change in format of the Annual Financial Statements presented.

Indicator	2010	2009
Surplus / (Deficit) before Appropriations	98,031,992	144,553,707
Surplus / (Deficit) at the end of the Year	550,229,704	354,637,226
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	22.04%	20.42%
Remuneration of Councillors	1.11%	1.54%
Collection Costs	0.00%	0.00%
Depreciation and Amortisation	0.00%	0.00%
Impairment Losses	1.46%	4.18%
Repairs and Maintenance	4.46%	5.32%
Interest Paid	0.10%	0.15%
Bulk Purchases	2.49%	0.00%
Contracted Services	7.22%	1.66%
Grants and Subsidies Paid	44.54%	43.19%
General Expenses	16.50%	23.53%
Current Ratio:		
Creditors Days	83	28

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

The services offered by the Chris Hani District Municipality can generally be classified as General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2010 are as follows:

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	77,215,538	45,751,861	68.77%	-	-
Operating income for the year	589,952,356	468,910,776	25.81%	587,515,221	0.41%
Appropriations for the year	(134,981,035)	(118,489,102)	13.92%	-	-
	532,186,859	396,173,534	34.33%	587,515,221	(9.42)%
Expenditure:					
Operating expenditure for the year	491,920,364	324,357,069	51.66%	587,515,221	(16.27)%
Sundry transfers	(97,560,487)	(5,399,072)	1706.99%	-	-
Closing surplus / (deficit)	137,826,981	77,215,538	78.50%	-	-
	532,186,859	396,173,534	34.33%	587,515,221	(9.42)%

3.1 General Services

This entails the management of infrastructure and other grants, which are used primarily for infrastructure development, local economic development and tourism marketing and development.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	536,512,365	468,910,776	14.42%	587,515,221	(8.68)%
Expenditure	232,998,396	248,365,889	(6.19)%	416,746,738	(44.09)%
Surplus / (Deficit)	303,513,969	220,544,887	37.62%	170,768,483	-
Surplus / (Deficit) as % of total income	56.57%	47.03%		29.07%	

3.2 Trading Services

This entails the operation and maintenance of all sanitation and water schemes located within the area of jurisdiction of the municipality.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	53,439,991	-	-	-	-
Expenditure	258,921,968	75,991,179	240.73%	170,768,483	51.62%
Surplus / (Deficit)	(205,481,977)	(75,991,179)	170.40%	(170,768,483)	-
Surplus / (Deficit) as % of total income	(384.51)%	-		-	

The services were recorded for the first time in the 2009/2010 financial records of the municipality.

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R158 114 677 (2008/09: R121 411 834). Full details of Property, Plant and Equipment are disclosed in Note 9 and appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R25 566 859 was financed as follows:

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Capital Replacement Reserve	26,566,821	7,690,112	245.47%	3,397,550	681.94%
Grants and Subsidies	131,547,856	113,465,721	15.94%	228,500,000	(42.43)%
Own Funds (Accumulated Surplus)	-	256,000	-	-	-
	158,114,677	121,411,834	30.23%	231,897,550	(31.82)%

Source of funding as a percentage of Total Capital Expenditure:

Details	2010	2009
Capital Replacement Reserve	16.80%	6.33%
Grants and Subsidies	83.20%	93.46%
Own Funds (Accumulated Surplus)	-	0.21%

Property, Plant and Equipment is funded to such a great extent from grants and subsidies because the municipality does not have the financial resources to finance capital from its own funds.

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget

Details	2010	2009
Variance per Category:		
Budgeted surplus before appropriations	-	-
Revenue variances	2,437,135	7,640,422
Expenditure variances:		
Employee Related Costs	(7,579,380)	5,050,699
Remuneration of Councillors	162,943	286,549
Collection Costs	545,480	572,209
Depreciation and Amortisation	1,071,796	3,084,800
Impairment Losses	(7,194,127)	(13,573,358)
Repairs and Maintenance	(19,247,027)	18,286,180
Interest Paid	9,039	(15,245)
Bulk Purchases	(10,265,344)	-
Contracted Services	(35,180,740)	576,150
Grants and Subsidies Paid	196,832,192	108,901,148
General Expenses	(23,169,451)	13,762,092
Loss on disposal of Property, Plant and Equipment	(390,524)	(17,939)
Actual surplus before appropriations	98,031,992	144,553,707

Details	2010	2009
Variance per Service Segment:		
Budgeted surplus before appropriations	-	-
Executive and Council	(194,465)	(834,295)
Finance and Administration	41,927,536	(10,980,528)
Planning and Development	223,180	207,134
Health	4,231,619	4,664,229
Community and Social Services	1,185,184	869,727
Public Safety	1,091,636	4,537,698
Environmental Protection	(1,341,384)	(1,382,220)
Roads and Transport	8,739,447	3,445,075
Water	(34,713,494)	31,060,462
Other	76,882,733	112,966,426
Actual surplus before appropriations	98,031,992	144,553,707

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a criptic explanation of significant variances of more than 10% from budget are included in Appendix "E (1)".

5.2 Capital Budget

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted R
Executive and Council	-	534,117	(534,117)	-	-
Finance and Administration	26,522,626	963,457	25,559,170	506,100	26,016,526
Planning and Development	99,774	710,011	(610,237)	228,450	(128,677)
Health	71,267	42,534	28,733	-	71,267
Community and Social Services	2,270,631	47,501	2,223,130	2,663,000	(392,369)
Housing	-	468	(468)	-	-
Public Safety	2,464,739	794,591	1,670,147	-	2,464,739
Sport and Recreation	-	346,036	(346,036)	-	-
Waste Management	39,270,821	35,233,923	4,036,898	72,214,811	(32,943,990)
Roads and Transport	-	7,330,597	(7,330,597)	-	-
Water	237,086,206	15,567,971	221,518,235	156,285,189	80,801,017
Electricity	-	6,372,543	(6,372,543)	-	-
Other	-	3,596,189	(3,596,189)	-	-
	307,786,064	71,539,938	236,246,126	231,897,550	75,888,514

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with a criptic explanation of significant variances of more than 5% from budget are included in Appendix "E (2)".

6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2010 amounted to R550 229 704 (30 June 2009: R354 637 226) and is made up as follows:

Capital Replacement Reserve	40,268,696
Government Grants Reserve	372,134,027
Accumulated Surplus	137,826,981
	550,229,704

The Capital Replacement Reserve replaces the previous statutory funds, such as the Capital Development Fund – and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash is made annually to the reserve.

The Government Grants Reserves are utilised to offset the cost of depreciation of assets funded from Government Grants over the lifespan of such assets. Amounts equal to the cost of assets acquired from Government Grants are transferred to the reserve annually.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 20 and the Statement of Change in Net Assets for more detail.

7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2010 was R6 628 389 (30 June 2009: R7 652 081).

Refer to Note 17 and Appendix "A" for more detail.

8. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2010 was R21 599 165 (30 June 2009: R17 770 99).

This liability is in respect of continued Healh Care Benefits for employees of the municipality after retirement. This liability is unfunded.

Refer to Note 18 for more detail.

9. NON-CURRENT PROVISIONS

Non-current Provisions amounted to R2 430 228 as at 30 June 2010 (30 June 2009: R2 731 024) and is made up as follows:

Provision for Long-term Service	2,430,228
	2,430,228

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 19 for more detail.

10. CURRENT LIABILITIES

Current Liabilities amounted to R300 746 711 as at 30 June 2010 (30 June 2009: R159 510 217) and is made up as follows:

Provisions (Note 13)	6,874,998
Creditors (Note 14)	112,279,671
Unspent Conditional Grants and Receipts (Note 15)	179,234,769
Operating Lease Liabilities (Note 16)	1,333,581
Current Portion of Long-term Liabilities (Note 17)	1,023,692
	300,746,711

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

11. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R412 592 586 as at 30 June 2010 (30 June 2009: R254 950 302).

Refer to Note 9 and Appendices "B, C and E (2)" for more detail.

12. INTANGIBLE ASSETS

The net value of Intangible Assets were R0 as at 30 June 2010 (30 June 2009: R190).

These are assets that cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 10 for more detail.

13. INVESTMENT PROPERTIES

The net value of Investment Properties was R100 as at 30 June 2010 (30 June 2009: R100).

Refer to Note 11 and Appendix "B" for more detail.

14. CURRENT ASSETS

Current Assets amounted to R469 041 510 as at 30 June 2010 (30 June 2009: R287 350 454) and is made up as follows:

Inventory (Note 2)	6,764,579
Consumer Debtors (Note 4)	68,994,265
Other Debtors (Note5)	18,642,267
VAT Receivable (Note 6)	32,555,598
Bank Balances and Cash (Note 7)	342,084,802
	469,041,510

15. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 15 and 24, and Appendix "F" for more detail.

16. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 54.

17. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have been converted to the new reporting GRAP-format.

18. EXPRESSION OF APPRECIATION

We are grateful to the Executive Mayor, members of the Mayoral Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, without whose assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER
03 September 2010

Statement of Financial Position at 30 June 2010

	Note	Actual 2010 R	2009 R
ASSETS			
Current Assets		469,041,510	287,350,454
Inventory	2	6,764,579	-
Consumer Debtors	4	68,994,265	-
Other Debtors	5	18,642,267	24,395,431
VAT Receivable	6	32,555,598	8,181,691
Bank, Cash and Cash Equivalents	7	342,084,802	254,765,637
Current Portion of Long-term Receivables	12	(0)	7,695
Non-Current Assets		412,592,686	254,950,592
Property, Plant and Equipment	9	412,592,586	254,950,302
Intangible Assets	10	(0)	190
Investment Property	11	100	100
Long-term Receivables	12	0	-
Total Assets		**881,634,196**	**542,301,046**
LIABILITIES			
Current Liabilities		300,746,711	159,510,217
Provisions	13	6,874,998	5,938,709
Creditors	14	112,279,671	24,437,997
Unspent Conditional Grants and Receipts	15	179,234,769	128,151,274
Operating Lease Liabilities	16	1,333,581	7,873
Current Portion of Long-term Liabilities	17	1,023,692	974,365
Non-Current Liabilities		30,657,781	28,153,604
Long-term Liabilities	17	6,628,389	7,652,081
Retirement Benefit Liabilities	18	21,599,165	17,770,499
Non-current Provisions	19	2,430,228	2,731,024
Total Liabilities		**331,404,492**	**187,663,821**
Total Assets and Liabilities		**550,229,704**	**354,637,226**
NET ASSETS		550,229,704	354,637,226
Accumulated Surplus / (Deficit)	20	550,229,704	354,637,226
Total Net Assets		**550,229,704**	**354,637,226**

Statement of Financial Performance for the year ended 30 June 2010

Budget 2009 R	Budget 2010 R		Note	Actual 2010 R	Actual 2009 R
		REVENUE			
-	500,000	Service Charges	**21**	53,165,385	-
72,000	72,000	Rental of Facilities and Equipment	**22**	149,491	367,810
3,300,000	16,154,091	Interest Earned - External Investments	**23**	21,052,602	25,340,104
11,224	12,000	Interest Earned - Outstanding Debtors	**23**	-	-
457,737,130	570,277,130	Government Grants and Subsidies Received	**24**	513,779,361	441,845,289
-	-	Public Contributions and Donations	**25**	50,000	-
150,000	500,000	Other Income	**26**	1,755,518	999,917
-	-	Gains on Disposal of Property, Plant and Equipment		-	357,655
461,270,354	**587,515,221**	**Total Revenue**		**589,952,356**	**468,910,776**
		EXPENDITURE			
71,270,545	100,826,819	Employee Related Costs	**27**	108,406,199	66,219,846
5,277,771	5,622,993	Remuneration of Councillors	**28**	5,460,050	4,991,222
572,209	545,480	Collection Costs		-	-
3,084,800	1,071,796	Depreciation and Amortisation	**29**	-	-
-	-	Impairment Losses	**30**	7,194,127	13,573,358
35,535,851	2,704,475	Repairs and Maintenance		21,951,502	17,249,671
471,291	493,470	Finance Costs	**31**	484,431	486,536
-	2,000,000	Bulk Purchases	**32**	12,265,344	-
5,962,569	318,818	Contracted Services	**33**	35,499,558	5,386,419
249,005,146	415,915,001	Grants and Subsidies Paid	**34**	219,082,809	140,103,998
90,090,172	58,016,369	General Expenses	**35**	81,185,820	76,328,080
-	-	Loss on Disposal of Property, Plant and Equipment		390,524	17,939
461,270,354	**587,515,221**	**Total Expenditure**		**491,920,364**	**324,357,069**
-	-	**SURPLUS / (DEFICIT) FOR THE YEAR**		98,031,992	144,553,707

Refer to Appendix E(1) for explanation of budget variances

Statement of Changes in Net Assets for the year ended 30 June 2010

Description	Revaluation R	Total for Accumulated Surplus/(Deficit) Account R	Total
2009			
Balance at 30 June 2008	-	93,685,252	93,685,252
Change in Accounting Policy (Note 37)		-	-
Correction of Error - Opening Balances(Note 38)	-	110,233,914	110,233,914
Correction of Error (Note 38)	-	6,164,352	6,164,352
Restated Balance	**-**	**210,083,518**	**210,083,518**
Surplus / (Deficit) for the year		144,553,707	144,553,707
Transfer to CRR		-	-
Property, Plant and Equipment purchased		-	-
Donated / Contributed PPE		-	-
Grants utilised to obtain PPE		-	-
Interest received		-	-
Asset disposals		-	-
Offsetting of Depreciation		-	-
Balance at 30 June 2009	**-**	**354,637,226**	**354,637,226**
	-	-	-
2010			
Change in Accounting Policy (Note 37)		-	-
Correction of Error (Note 38)		97,560,487	97,560,487
Restated Balance	**-**	**452,197,713**	**452,197,713**
Surplus / (Deficit) for the year		98,031,992	98,031,992
Transfer to CRR		-	-
Property, Plant and Equipment purchased		-	-
Donated / Contributed PPE		-	-
Grants utilised to obtain PPE		-	-
Interest received		-	-
Asset disposals		-	-
Offsetting of Depreciation		-	-
Balance at 30 June 2010	**-**	**550,229,704**	**550,229,704**

Cash Flow Statement for the Year ended 30 June 2010

	Note	Actual 2010 R	Actual 2009 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from Ratepayers, Government and Other		463,296,096	484,539,278
Cash paid to Suppliers and Employees		(237,545,814)	(355,868,331)
Cash generated from / (utilised in) Operations	**39**	**225,750,282**	**128,670,947**
Interest received	**23**	21,052,602	25,340,104
Interest paid	**31**	(484,431)	(486,536)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		**246,318,452**	**153,524,515**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	**9**	(158,114,677)	(121,411,834)
Proceeds on Disposal of Property, Plant and Equipment		81,870	522,327
Proceeds on Disposal of Intangible Assets		190	-
Decrease/(Increase) in Long-term Receivables	**12**	7,695	110,029
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		**(158,024,922)**	**(120,779,478)**
CASH FLOWS FROM FINANCING ACTIVITIES			
New Loans raised	**17**	-	-
Loans repaid	**17**	(974,365)	(927,415)
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		**(974,365)**	**(927,415)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**7**	**87,319,165**	**31,817,622**
Cash and Cash Equivalents at the beginning of the year		254,765,637	222,948,015
Cash and Cash Equivalents at the end of the year		342,084,802	254,765,637

Accounting Policies

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

These Annual Financial Statements have been prepared in accordance with the Accounting Standards as prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008, and also in terms of the standards and principles contained in Directives 4 and 5 issued by the ASB in March 2009.

1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2009 and 30 June 2010 the municipality has adopted the accounting framework as set out above. The details of any resulting changes in accounting policy and comparative restatements are set out in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

(a) Is required by a Standard of GRAP; or
(b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1.2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 9.2 on Revenue from Exchange Transactions and Accounting Policy 9.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by management.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (Revenue from Exchange Transactions) and GAMAP 9 (Revenue) as far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service was rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The CHDM management is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities into categories is based on judgement by management. Accounting Policy 5.1 on Financial Assets Classification and Accounting Policy 5.2 on Financial Liabilities Classification describe the factors and criteria considered by management in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32 (Financial Instruments – Presentation) and IAS 39 (Financial Instruments – Recognition and Measurement).

1.2.3 Impairment of Financial Assets

Accounting Policy 5.4 on Impairment of Financial Assets describes the process followed to determine the value with which financial assets should be impaired. In making the estimation of the impairment, management considered the detailed criteria of impairment of financial assets as set out in IAS 39 (Financial Instruments - Recognition and Measurement) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. Management is satisfied that impairment of financial assets recorded during the year is appropriate.

Impairment of Trade Receivables:
The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

1.2.4 Useful lives of Property, Plant and Equipment

As described in Accounting Policies 2.3, 3.2 and 4.2, the municipality depreciates / amortises its Property, Plant and Equipment, Investment Property and Intangible Assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. However, as mentioned in the said policies, the estimated useful life and the depreciation methods of the assets were not reviewed during the current or prior financial years. The useful lives and residual values of the assets are based on industry knowledge.

1.2.5 Impairment: Write-down of Property, Plant and Equipment and Inventories

Accounting Policy 2.10 on PPE – Impairment of Assets, Accounting Policy 3.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 7.2 on Inventory – Subsequent Measurement describes the conditions under which non-financial assets are tested for potential impairment losses by management.

Significant estimates and judgements are made relating to impairment testing of PPE, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory) and GRAP 102 (Intangible Assets). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the NRV for Inventories involves significant judgment by management.

1.2.6 Defined Benefit Plan Liabilities

As described in Accounting Policy 12.2, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19.

1.2.7 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1.3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on a Going Concern Basis.

1.5 OFFSETTING

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- **GRAP 18:** Segment Reporting - issued March 2005
- **GRAP 21:** Impairment of Non-cash-generating Assets - issued March 2009
- **GRAP 23:** Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
- **GRAP 24:** Presentation of Budget Information in Financial Statements - issued November 2007
- **GRAP 25:** Employee Benefits - issued December 2009
- **GRAP 26:** Impairment of Cash-generating Assets - issued March 2009
- **GRAP 103:** Heritage Assets - issued July 2008
- **GRAP 104:** Financial Instruments - October 2009

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5, paragraph 29, allows for the municipality to select to apply the principles established in a Standard of GRAP that has been issued, but is not yet in effect, in developing an appropriate accounting policy dealing with a particular transaction or event before applying paragraph .12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

- Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
- Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)
- Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

- **IAS 36:** Impairment of assets - amended version effective 1 January 2010
- **IAS 39:** Financial Instruments: Recognition and Measurement - amended version effective 1 January 2010

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.2 SUBSEQUENT MEASUREMENT

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

Residual values, estimated useful lives and depreciation methods were not reviewed in the previous and current financial years as required by GRAP 17. The municipality applied ASB Directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the years ending 30 June 2009 and 30 June 2010, but must comply with the measurement requirements for the year ending 30 June 2011. It must however identify and correctly classify all Property, Plant and Equipment on an asset register during the 2009 and 2010 years.

2.3 DEPRECIATION

Depreciation on assets other than land is calculated on cost, using the Straight-line Method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

Asset Class	Years	Asset Class	Years
Buildings		**Other**	
Improvements	25 - 30	Specialist Vehicles	10 - 15
Infrastructure		Other Vehicles	5 - 15
Roads and Paving	10 - 100	Office Equipment	3 - 15
Pedestrian Malls	15 - 30	Furniture and Fittings	5 - 15
Electricity	15 - 60	Watercraft	15 - 20
Water	15 - 100	Bins and Containers	5 - 15
Sewerage	15 - 60	Specialised Plant and Equipment	10 - 15
Community		Other Plant and Equipment	2 - 15
Community Facilities	25 - 30		
Recreational Facilities	15 - 30		
Security	15 - 25		

2.4 LAND

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

2.5 INCOMPLETE CONSTRUCTION WORK

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

2.6 FINANCE LEASES

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the municipality or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

2.7 HERITAGE ASSETS

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assesses at each reporting date if there is an indication of impairment.

Subsequent to measurement, heritage assets are carried at cost less impairment losses.

2.8 INFRASTRUCTURE ASSETS

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

2.9 DERECOGNITION OF PROPERTY, PLANT AND EQUIPMENT

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals and are included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

2.10 IMPAIRMENT

2.10.1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of a cash-generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a cash generating asset is the present value of the asset's remaining service potential.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount

that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

2.10.2 Impairment of Non-cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

2.11 TRANSITIONAL ARRANGEMENTS

The estimated useful lives and depreciation methods have not been reviewed for the years ended 30 June 2009 and 30 June 2010 in accordance with the transitional arrangements of ASB Directive 4.

The testing for impairment of cash generating assets has not been performed for the years ended 30 June 2009 and 30 June 2010 in accordance with the transitional arrangements of ASB Directive 4.

The testing for impairment of non-cash generating assets has not been performed for the years ended 30 June 2009 and 30 June 2010 in accordance with the transitional arrangements of ASB Directive 4.

3. INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;

- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a Straight-line Basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21 / IAS 36.

Intangible Assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

3.2 SUBSEQUENT MEASUREMENT, AMORTISATION AND IMPAIRMENT

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a Straight-line Basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period – however, such intangible assets are subject to an annual impairment test.

Intangible Assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

3.3 DERECOGNITION

Intangible Assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the Statement of Financial Performance.

3.4 TRANSITIONAL PROVISIONS

The municipality accounted for all costs incurred that meet the intangible asset definition and recognition requirements as intangible assets for the financial years ended 30 June 2009 and 30 June 2010 (and retrospectively, where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

4. INVESTMENT PROPERTY

4.1 INITIAL RECOGNITION

Investment Property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of

goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the municipality (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-current Assets Held-for-Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

4.2 SUBSEQUENT MEASUREMENT

Investment Property is measured using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the Straight-line Method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4.3 TRANSITIONAL PROVISIONS

Investment properties are recognised, and subsequently measured, in accordance with the cost model in terms of GRAP 16 and have been disclosed for the financial years ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GRAP 16, GRAP 3 and ASB Directive 4.

5. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities or Equity Instruments in accordance with the substance of the contractual agreement.

Initial Recognition
Financial assets and financial liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.
The municipality does not offset a financial asset and a financial liability unless a legally

enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair Value Methods and Assumptions
The fair values of financial instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Effective Interest Rate Method
The Effective Interest Method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised Cost
Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the Effective Interest Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

5.1 FINANCIAL ASSETS – CLASSIFICATION

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

- Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the Effective Interest Rate Method less a provision for impairment.
- Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.
- Financial Assets at Fair Value through Profit or Loss are financial assets that meet either of the following conditions:
  (i) They are classified as held for trading; or
  (ii) Upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

- Available for Sale Investments are financial assets that are designated as available for sale or are not classified as:
  (i) Loans and Receivables;
  (ii) Held-to-Maturity Investments; or
  (iii) Financial Assets at Fair Value through Profit and Loss

The municipality may have the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of IAS 39.09
Listed Investments (Shares)	Held at fair value through profit or loss
Unlisted Investments (Stock)	Held at fair value through profit or loss
Bank, Cash and Cash Equivalents	Available for sale
Bank, Cash and Cash Equivalents – Call Deposits	Available for sale
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held to maturity
Bank, Cash and Cash Equivalents – Notice Deposits	Held to maturity

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash-on-hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as Financial Assets: Available for Sale.

5.2 FINANCIAL LIABILITIES – CLASSIFICATION

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.
There are two main categories of Financial Liabilities, the classification based on how they are measured. Financial liabilities may be measured at:
(i) Fair value through profit or loss;
(ii) Other financial liabilities (Financial liabilities measured at amortised cost); or
(iii) Financial guarantee contract.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Any other financial liabilities are classified as Other Financial Liabilities in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

The municipality may have the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Creditors
- Bank Overdraft
- Short-term Loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

5.3 INITIAL AND SUBSEQUENT MEASUREMENT

5.3.1 Financial Assets:

Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an Effective Yield Basis.

Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Rate Method less any impairment, with interest recognised on an Effective Yield Basis. Trade and Other Receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to group entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

Financial Assets at Fair Value are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

Available-for-Sale Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the Statement of Financial Performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the Statement of Financial Performance.

5.3.2 Financial Liabilities:

Financial Liabilities
Financial Liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at Amortised Cost
Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables,

interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the Effective Interest Rate Method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the Accrual Basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Financial Guarantee Contracts

Financial Guarantee Contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value. The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

5.4 IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

5.4.1 Available-for-Sale Financial Assets:

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

5.4.2 Financial Assets carried at Amortised Cost

Accounts Receivable encompass long-term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the Effective Interest Rate Method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

5.5 DERECOGNITION OF FINANCIAL ASSETS

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

5.6 DERECOGNITION OF FINANCIAL LIABILITIES

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

6. RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

Risks and exposure are disclosed as follows:

Credit Risk

- Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the municipality's receivables from customers and investment securities.
- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

Liquidity Risk

- Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.
- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities.

Market Risk

- Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.
- The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk.
- A sensitivity analysis for each of the market risks.

7. INVENTORIES

7.1 INITIAL RECOGNITION

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

7.2 SUBSEQUENT MEASUREMENT

7.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods:

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

7.2.2 Water Inventory:

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, untreated water in dams, that are filled by natural resources, which is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the FIFO Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

7.2.3 Unsold Properties:

Unsold properties are valued at the lower of cost and net realisable value on a Weighted Average Cost Basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

7.2.4 Other Arrangements:

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

7.3 TRANSITIONAL PROVISIONS

Immovable capital assets that meet the definition and recognition criteria of inventory are recognised as inventories for the financial years ended 30 June 2009 and 30 June 2010 in accordance with the requirements of GRAP 12 and ASB Directive 4.

8. NON-CURRENT ASSETS HELD-FOR-SALE

8.1 INITIAL RECOGNITION

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

8.2 SUBSEQUENT MEASUREMENT

Non-current Assets and Disposal Groups classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held-for-sale, or while it is part of a disposal group classified as held-for-sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held-for-sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held-for-sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

8.3 TRANSITIONAL PROVISIONS

It is accounted for the disposal of Non-current Assets and Disposal Groups for the years ended 30 June 2009 and 30 June 2010 (and not retrospectively) in accordance with the requirements of GRAP 100 and ASB Directive 4.

9. REVENUE RECOGNITION

9.1 GENERAL

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The

municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from Exchange Transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from Non-exchange Transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

9.2 REVENUE FROM EXCHANGE TRANSACTIONS

9.2.1 Service Charges

Service charges are levied in terms of approved tariffs.

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

9.2.2 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the Time-proportionate Basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on Trust Funds is allocated directly to the fund.
- Interest earned on Unspent Conditional Grants is allocated directly to the Creditor: Unspent Conditional Grants, if the grant conditions indicate that interest is payable to the funder.

9.2.3 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

9.2.4 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

9.2.5 Royalties

Royalties are recognised on an Accrual Basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a Straight-line Basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

9.2.6 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

9.2.7 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

9.2.8 Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

9.3 REVENUE FROM NON-EXCHANGE TRANSACTIONS

9.3.1 Public Contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

9.3.2 Other Donations and Contributions

Donations and Contributions are recognised on a Cash-receipt Basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

9.3.3 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

10. GOVERNMENT GRANTS AND RECEIPTS

Government Grants and Receipts are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

11. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs

of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

11.1 PROVISIONS FOR RESTRUCTURING COSTS

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- The business or part of a business concerned;
- The principal locations affected;
- The location, function, and approximate number of employees who will be compensated for terminating their services;
- The expenditures that will be undertaken; and
- When the plan will be implemented.

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

11.2 PROVISIONS FOR ENVIRONMENTAL REHABILITATION

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

12. EMPLOYEE BENEFITS

12.1 SHORT-TERM EMPLOYEE BENEFITS

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.
The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits, such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year-end and is shown as a provision in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

12.2 POST-EMPLOYMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

12.2.1 Defined Contribution Plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The

contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

12.2.2 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Post-retirement Health Care Benefits:
The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds, with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the Projected Unit Credit Method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the Corridor Method. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a Straight-line Basis over the vesting period.

Long-service Allowance:
The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service) is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

Provincially-administered Defined Benefit Plans:
The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities

Defined Benefit Pension Plans:
The municipality has an obligation to provide Post-retirement Pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the Corridor Method. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a Straight-line Basis over the vesting period.

13. LEASES

13.1 CLASSIFICATION

Leases are classified as Finance Leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as Operating Leases.

13.2 THE MUNICIPALITY AS LESSEE

13.2.1 Finance Leases

Where the municipality enters into a finance lease, Property, Plant and Equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the Effective Interest Rate Method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the Effective Interest Rate Method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

13.2.2 Operating Leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a Straight-line Basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a Straight-line Basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

13.3 THE MUNICIPALITY AS LESSOR

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental revenue is recognised on a Straight-line Basis over the term of the relevant lease.

14. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial years ending 30 June 2009 and 30 June 2010 in accordance with the requirements of GRAP 5 and ASB Directive 4.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established – the municipality expenses borrowing costs when it is inappropriate to capitalise it.

The municipality ceases the capitalisation of borrowing costs when all the activities necessary to prepare the qualifying assets for its intended use has been substantially completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

15. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

16. VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the Cash Basis.

17. UNAUTHORISED EXPENDITURE

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council, it is treated as an asset until it is recovered or written off as irrecoverable.

18. IRREGULAR EXPENDITURE

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council, it is treated as an asset until it is recovered or written off as irrecoverable.

19. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council, it is treated as an asset until it is recovered or written off as irrecoverable.

20. FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

The municipality accounted for the effect of changes in foreign exchange rates, if applicable (and retrospectively, where practicable), in accordance with the requirements of GRAP 4, GRAP 3 and ASB Directive 4.

21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in Accounting Policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in Accounting Estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective for the financial years ended 30 June 2009 and 30 June 2010 in accordance with the requirements of GRAP 3.

22. COMMITMENTS

Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received and are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality. (Meaning?)

23. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

24. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future event not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of

resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent Assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in notes to the Annual Financial Statements.

26. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in notes to the Annual Financial Statements.

27. COMPARATIVE INFORMATION

27.1 CURRENT YEAR COMPARATIVES:

Budgeted amounts have been included in the Annual Financial Statements for the current financial year only.

27.2 PRIOR YEAR COMPARATIVES:

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

Notes to the Financial Statements for the Year ended 30 June 2010

1. GENERAL INFORMATION

The Chris Hani District Municipality is a local government institution in Queenstown in the Eastern Cape and and has eight local municipalities under its jurisdiction. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction and overview of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Constitution.

The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a medium capacity municipality and had to comply with GRAP by 30 June 2009. The municipality, however, took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2011.

2. INVENTORY

	2010 R	2009 R
Consumable Stores - at cost	10,232	-
Water - at cost	6,754,347	-
Total Inventory	**6,764,579**	**-**

Inventories were recognised for the first time in the reporting year and originate from consumer services rendered by the local municipalities on behalf of the municipality. Refer to Note 38.4.

Inventories are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

No Inventories have been pledged as collateral for Liabilities of the municipality.

3. NON-CURRENT ASSETS HELD FOR SALE

The municipality had no property, plant and equipment to be classified as non-current assets, which were held for sale for the two financial years.

4. CONSUMER DEBTORS

	Gross Balances	Provision for Impairment	Net Balances
As at 30 June 2010			
Service Debtors:	200,982,333	131,988,068	68,994,265
Sewerage	98,721,661	65,266,340	33,455,321
Water	102,260,671	66,721,728	35,538,944
Loan Instalments	-	-	-
Other Debtors	-	-	-
Total Consumer Debtors	**200,982,333**	**131,988,068**	**68,994,265**
As at 30 June 2010			
Service Debtors:	-	-	-
Sewerage	-	-	-
Water	-	-	-
Loan Instalments	-	-	-
Other Debtors	-	-	-
Total Consumer Debtors	**-**	**-**	**-**

Consumer Debtors were recognised for the first time in the reporting year and originate from consumer services rendered by the local municipalities on behalf of the municipality. Refer to Note 38.5.

Consumer Debtors are billed monthly - by the end of month at the latest. No interest is charged on trade receivables until the 7th of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Consumer Debtors.

No Trade Receivables have been ceded as security.

4.1 Ageing of Consumer Debtors

Sewerage: Ageing	2010 R	2009 R
Current:		
0 - 30 days	9,154,637	-
Past Due:		
31 - 60 Days	18,044,619	-
61 - 90 Days	4,056,153	-
91 - 120 Days	1,955,181	-
+ 120 Days	65,511,072	-
Total	**98,721,661**	**-**

Water: Ageing	2010 R	2009 R
Current:		
0 - 30 days	11,857,900	-
Past Due:		
31 - 60 Days	17,953,241	-
61 - 90 Days	3,330,731	-
91 - 120 Days	3,426,659	-
+ 120 Days	65,692,139	-
Total	**102,260,671**	**-**

As at 30 June 2010 Consumer Debtors of R47 981 728 (2009: R0) were past due but not impaired. The age analysis of these Consumer Debtors is as follows:

31 - 60 Days	34,074,693	-
61 - 90 Days	87,114	-
91 - 120 Days	60,448	-
+ 120 Days	13,759,473	-
Total	**47,981,728**	**-**

4.2 Summary of Debtors by Customer Classification

	Household	Industrial/ Commercial	National and Provincial Government	Other
As at 30 June 2010				
Current:				
0 - 30 days	1,837,393	2,142,639	17,032,505	-
Past Due:				
31 - 60 Days	4,081,462	2,026,318	29,890,081	-
61 - 90 Days	3,960,584	3,349,884	76,416	-
91 - 120 Days	3,777,851	1,550,964	53,025	-
+ 120 Days	90,291,697	28,841,800	12,069,713	-
Sub-total	103,948,987	37,911,606	59,121,740	-
Less: Provision for Impairment	96,714,850	35,273,218	-	-
Total	**7,234,137**	**2,638,388**	**59,121,740**	**-**

4.3 Reconciliation of the Provision for Impairment

	2010 R	2009 R
Balance at beginning of year	-	-
Impairment Losses recognised	131,988,068	-
Impairment Losses reversed	-	-
Amounts written off as uncollectable	-	-
Amounts recovered	-	-
Balance at end of year	**131,988,068**	**-**

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Consumer Debtors has been made for all outstanding consumer balances based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which do not cover the total outstanding debt and vacant property respectively.

4.4 Ageing of impaired Consumer Debtors

	2010 R	2009 R
Current;		
0 - 30 Days	-	-
Past Due:		
31 - 60 Days	1,923,168	-
61 - 90 Days	7,299,770	-
91 - 120 Days	5,321,392	-
+ 120 Days	117,443,738	-
Long-term Loan Debtors	-	-
Total	**131,988,068**	**-**

5. OTHER DEBTORS

Government Subsidy Claims	10,095,644	17,608,012
Projects	60,734	1,380,364
Recoverable Works	146,486	146,486
Short-term Loans	2,306,686	19,101,652
Sundry Deposits	907,732	808,590
Sundry Debtors	9,707,883	7,422,639
Sub-Total	23,225,165	46,467,743
Less: Provision for Impairment	(4,582,898)	(22,072,312)
Total Other Debtors	**18,642,267**	**24,395,431**

The average credit period for Government Grants and Subsidies is dependent on the Government Department involved and the nature of the claim. No interest is charged on outstanding Government Grants and Subsidies. The subsidies are payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and relevant departments.

Short-term Loans mainly comprise temporary advances made to local municipalities which are repayable within 12 months.

Included in Sundry Deposits is an amount of R887 132 (2009: R787 990) in respect of cash deposits made to Eskom for the supply of electricity.

Sundry Debtors are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality. Included in the total is an amount of R18 325 (2009: R708 041) in respect of uncleared bank reconciliation items.

The municipality does not hold deposits or other security for its Other Debtors.

None of the Other Debtors have been pledged as security for the municipality's financial liabilities.

5.1 Ageing of Other Debtors

	2010 R	2009 R
Current;		
0 - 30 Days	-	-
Past Due:		
31 - 60 Days	-	-
61 - 90 Days	-	-
91 - 120 Days	1,092,233	2,273,492
+ 120 Days	17,550,034	22,121,939
Total	**18,642,267**	**24,395,431**

As at 30 June 2010 Other Debtors of R14 059 369 (2009: R2 323 119) were past being due were but not impaired. The age analysis of these Other Debtors is as follows:

31 - 60 Days	-	-
61 - 90 Days	-	-
91 - 120 Days	-	2,273,492
+ 120 Days	14,059,369	49,628
Total	**14,059,369**	**2,323,119**

5.2 Reconcilliation of Provision for Impairment

Balance at beginning of year	-	-
Impairment Losses recognised	131,988,068	-
Impairment Losses reversed	-	-
Amounts written off as uncollectable	-	-
Amounts recovered	-	-
Balance at end of year	**131,988,068**	**-**

The Provision for Impairment on Other Debtors (Loans and Receivables) exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining the recoverability of a Debtor, the municipality considers any change in the credit quality of the Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

The following loans and receivables are included in the total amount of the Provision for Impairment:

	2010 R	2009 R
Government Subsidy Claims	2,607,390	7,956,900
Projects	60,734	-
Recoverable Works	146,486	7,975,832
Short-term Loans	237,674	4,775,788
Sundry Debtors	1,530,613	1,363,792
Total Provision for Impairment on Other Debtors	**4,582,898**	**22,072,312**

5.3 Ageing of impaired Other Debtors

Current;		
0 - 30 Days	-	-
Past Due:		
31 - 60 Days	-	-
61 - 90 Days	-	-
91 - 120 Days	1,092,233	-
+ 120 Days	3,490,665	22,072,312
Total	**4,582,898**	**22,072,312**

6. VAT RECEIVABLE

VAT Receivable	**4,582,898**	**22,072,312**

VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

7. BANK, CASH AND CASH EQUIVALENTS

Bank, cash and cash equivalents.	**342,084,802**	**254,765,637**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

7.1 Current Investment Deposits

Call Deposits	112,040,643	115,060,738
Notice Deposits	-	-
Total	**112,040,643**	**115,060,738**

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 6,20 % to 8,50 % (2009: 5,90% to 9,90%) per annum.

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 6,42 % to 6,95 % (2009: 5,90% to 9,90%) per annum.

Deposits of R112 040 643 (2009: R115 060 738) are attributable to Unspent Conditional Grants.

7.2 Bank Accounts

	2010 R	2009 R
Cash in Bank	230,039,619	139,700,359
Total	**230,039,619**	**139,700,359**

The Municipality has the following bank accounts:

Primary Bank Account
First National Bank - Cathcart Road Branch, Queenstown - Account Number 620 0251 0693:

Cash book balance at beginning of year	139,700,359	222,943,475
Cash book balance at end of year	**230,039,619**	**139,700,359**

Bank statement balance at beginning of year	143,160,495	224,102,453
Bank statement balance at end of year	**256,712,679**	**143,160,495**

An amount of R67 194 126 (2009: R13 090 537) is attributable to Unspent Conditional Grants.

An amount of R40 268 696 (2009: R36 835 517) is attributable to the Capital Replacement Reserve.

Interest is earned at different rates per annum on favourable balances.

7.3 Cash and Cash Equivalents

Cash Floats and Advances	**4,540**	**4,540**

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

8. OPERATING LEASE ASSETS / RECEIVABLES

The municipality had no long-term arrangements to be classified as operating lease agreements for the two financial years.

9. PROPERTY, PLANT AND EQUIPMENT

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not measure all the Property, Plant and Equipment in accordance with the standard, including the following:

- Land; and
- Componentised infrastructure assets.

The municipality did not measure the following, in terms of the transitional provisions:

- Review of useful life of item of PPE recognised in the Annual Financial Statements;
- Review of the depreciation method applied to PPE, recognised in the Annual Financial Statements;
- Review of residual values of item of PPE, recognised in the Annual Financial Statements;
- Depreciation of assets;
- Impairment of non-cash generating assets; and
- Impairment of cash generating assets.

The municipality is currently in the process of identifying and valuing all Property, Plant and Equipment in terms of GRAP 17. It is expected that this process will be completed for inclusion in the 2011 Financial Statements. The municipality is in the process of itemising all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2011.

The prior year figures of Property, Plant and Equipment have been correctly restated to Investment Property held by the municipality, previously included in Property, Plant and Equipment. Refer to Note 38.3 on "Correction of Error" for details of the restatement.

Furthermore, the prior year figures of Property, Plant and Equipment have been restated to correctly disclose the assets held by the municipality, previously expensed as Grant Expenditure from the MIG Grant. Refer to Note 38.3 on "Correction of Error" for details of the restatement.

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

9.1 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal:

No Property, Plant and Equipment was retired from active use and held for disposal during the financial year.

9.2 Assets pledged as security:

The municipality did not pledge any of its assets as security.

9.3 Impairment of Property, Plant and Equipment

The municipality has not tested its items of Property, Plant and Equipment for any potential impairment losses on assets due to the exemptions granted for the measurement of assets in terms of ASB Directive 4, March 2009.

9.4 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed:

No review of the useful lives or depreciation methods applied to items of Property, Plant and Equipment has been performed by the municipality due to the exemptions granted for the measurement of assets in terms of ASB Directive 4, March 2009.

9.5 Land and Buildings carried at Fair Value:

The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

9. PROPERTY, PLANT AND EQUIPMENT, CONT.

Reconciliation of Carrying Value - 30 June 2010

Description	Land and Buildings	Infrastructure	Community	Heritage	Other	Total
Carrying values at 01 July 2009	15,910,387	224,338,887	164,761	-	14,536,267	254,950,302
Cost	18,331,126	224,338,887	358,571	-	24,642,268	267,670,852
• Completed Assets	18,331,126	14,388,975	358,571	-	24,642,268	57,720,940
• Under Construction	-	209,949,912	-	-	-	209,949,912
Correction of error (Note 38)	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(2,420,739)	-	(193,810)	-	(10,106,001)	(12,720,550)
• Cost	(2,420,739)	-	(193,810)	-	(10,106,001)	(12,720,550)
Acquisitions	72,600	-	-	-	31,356,436	31,429,037
Borrowing Costs Capitalised	-	-	-	-	-	-
Capital under Construction - Additions:	-	126,685,641	-	-	-	126,685,641
• Cost	-	126,685,641	-	-	-	126,685,641
• Borrowing Costs Capitalised	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-
Depreciation:	-	-	-	-	-	-
- Based on Cost	-	-	-	-	-	-
Carrying value of Disposals:	-	-	(101,001)	-	(371,392)	(472,393)
• Cost	-	-	(168,341)	-	(1,233,113)	(1,401,453)
• Accumulated Impairment Losses	-	-	-	-	-	-
• Accumulated Depreciation	-	-	67,339	-	861,721	929,060
- *Based on Cost*	-	-	67,339	-	861,721	929,060

9. PROPERTY, PLANT AND EQUIPMENT, CONT.

Reconciliation of Carrying Value - 30 June 2010

Description	Land and Buildings	Infrastructure	Community	Heritage	Other	Total
Carrying value of Tranfers to Held-for-Sale:	-	-	-	-	-	-
• Cost	-	-	-	-	-	-
• Accumulated Impairment Losses	-	-	-	-	-	-
• Accumulated Depreciation	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-
Capital under Construction - Completed	-	(60,278,525)	-	-	-	(60,278,525)
Other Movements	-	60,278,525	-	-	-	60,278,525
• Cost	-	60,278,525	-	-	-	60,278,525
• Accumulated Impairment Losses	-	-	-	-	-	-
• Accumulated Depreciation	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-
Carrying values at 30 June 2010	15,982,987	351,024,528	63,759	-	45,521,311	412,592,586
Cost	18,403,726	351,024,528	190,230	-	54,765,592	424,384,076
• Completed Assets	18,403,726	74,667,500	190,230	-	54,765,592	148,027,049
• Under Construction	-	276,357,027	-	-	-	276,357,027
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(2,420,739)	-	(126,471)	-	(9,244,280)	(11,791,490)
• Cost	(2,420,739)	-	(126,471)	-	(9,244,280)	(11,791,490)

9. PROPERTY, PLANT AND EQUIPMENT, CONT.

Reconciliation of Carrying Value - 30 June 2009

Description	Land and Buildings	Infrastructure	Community	Heritage	Other	Total
Carrying values at 01 July 2009	15,903,719	110,999,194	164,761	-	6,653,404	133,721,078
Cost	18,351,126	110,999,194	358,571	-	17,400,074	147,108,965
• Completed Assets	18,351,126	8,826,991	358,571	-	17,400,074	44,936,761
• Under Construction	-	102,172,204	-	-	-	102,172,204
Correction of error (Note 38)	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(2,447,407)	-	(193,810)	-	(10,746,669)	(13,387,887)
• Cost	(2,447,407)	-	(193,810)	-	(10,746,669)	(13,387,887)
Acquisitions	30,000	-	-	-	8,042,141	8,072,141
Borrowing Costs Capitalised	-	-	-	-	-	-
Capital under Construction - Additions:	-	113,339,693	-	-	-	113,339,693
• Cost	-	113,339,693	-	-	-	113,339,693
• Borrowing Costs Capitalised	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-
Depreciation:	-	-	-	-	-	-
- Based on Cost	-	-	-	-	-	-
Carrying value of Disposals:	(23,332)	-	-	-	(159,278)	(182,610)
• Cost	(50,000)	-	-	-	(799,947)	(849,947)
• Accumulated Impairment Losses	-	-	-	-	-	-
• Accumulated Depreciation	26,668	-	-	-	640,669	667,336
- *Based on Cost*	26,668	-	-	-	640,669	667,336

9. PROPERTY, PLANT AND EQUIPMENT, CONT.

Reconciliation of Carrying Value - 30 June 2009

Description	Land and Buildings	Infrastructure	Community	Heritage	Other	Total
Carrying value of Tranfers to Held-for-Sale:	-	-	-	-	-	-
• Cost	-	-	-	-	-	-
• Accumulated Impairment Losses	-	-	-	-	-	-
• Accumulated Depreciation	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-
Capital under Construction - Completed	-	(5,561,984)	-	-	-	(5,561,984)
Other Movements	-	5,561,984	-	-	-	5,561,984
• Cost	-	5,561,984	-	-	-	5,561,984
• Accumulated Impairment Losses	-	-	-	-	-	-
• Accumulated Depreciation	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-
Carrying values at 30 June 2010	15,910,387	224,338,887	164,761	-	14,536,267	254,950,302
Cost	18,331,126	224,338,887	358,571	-	24,642,268	267,670,852
• Completed Assets	18,331,126	14,388,975	358,571	-	24,642,268	57,720,940
• Under Construction	-	209,949,912	-	-	-	209,949,912
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(2,420,739)	-	(193,810)	-	(10,106,001)	(12,720,550)
• Cost	(2,420,739)	-	(193,810)	-	(10,106,001)	(12,720,550)

10. INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	**(0)**	**190**

The movement in Intangible Assets is reconciled as follows:

	Computer Software	Total
Carrying values at 01 July 2009	**190**	**190**
Cost	2,597,229	2,597,229
Accumulated Amortisation	(2,597,039)	(2,597,039)
Acquisitions:	-	-
Purchased	-	-
Internally Developed	-	-
Amortisation:	-	-
Purchased	-	-
Internally Developed	-	-
Disposals:	(190)	(190)
At Cost	(154,607)	(154,607)
At Accumulated Amortisation	154,417	154,417
Transfers:	-	-
At Cost	-	-
At Accumulated Amortisation	-	-
Carrying values at 30 June 2010	**(0)**	**(0)**
Cost	2,442,622	2,442,622
Accumulated Amortisation	(2,442,622)	(2,442,622)

	Computer Software	Total
Carrying values at 01 July 2008	**48,426**	**190**
Cost	2,545,562	2,597,229
Accumulated Amortisation	(2,497,136)	(2,597,039)
Acquisitions:	-	-
Purchased	-	-
Internally Developed	-	-
Amortisation:	(791,617)	-
Purchased	(791,617)	-
Internally Developed	-	-
Disposals:	-	-
At Cost	-	-
At Accumulated Amortisation	-	-

Transfers:	743,382	-
At Cost	51,668	-
At Accumulated Amortisation	691,714	-
Carrying values at 30 June 2009	**190**	**190**
Cost	2,597,229	2,597,229
Accumulated Amortisation	(2,597,039)	(2,597,039)

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise or measure all the Intangible Assets in accordance with the standard, including the following:

- Computer Software

The municipality is currently in the process of identifying and valuing all Intangible Assets in terms of GRAP 102. It is expected that this process will be completed for inclusion in the 2011 financial statements. It is possible that certain intangible assets are currently being recognised as Property, Plant and Equipment.

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets were pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

10.1 Significant Intangible Assets:

Significant Intangible Assets that did not meet the recognition criteria for Intangible Assets as stipulated in GRAP 102 and SIC 32, are the following:

(i) Website Costs incurred during the last two financial years have been expensed and not recognised as Intangible Assets. The municipality cannot demonstrate how its website will generate probable future economic benefits.

10.2 Intangible Assets with Indefinite Useful Lives:

The municipality amortises all its Intangible Assets and none of such assets are regarded as having indefinite useful lives.

10.3 Impairment of Intangible Assets:

The municipality has not tested its items of Intangible Assets for any potential impairment losses on assets. Furthermore, no review of the useful lives or depreciation methods applied to items of Intangible Assets has been performed. The aforementioned actions have not been carried out by the municipality due to the exemptions granted in terms of ASB Directive 4, March 2009.

11. INVESTMENT PROPERTY

	2010	2009
At Cost less Accumulated Depreciation	**100**	**100**

The movement in Investment Property is reconciled as follows:

Carrying values at 1 July	**100**	**100**
Cost	100	100
Accumulated Depreciation	-	-
Accumulated Impairment Losses	-	-
Acquisitions during the Year	-	-
Depreciation during the Year	-	-
Impairment Losses during the Year	-	-
Disposals during the Year:	-	-
At Cost	-	-
At Accumulated Depreciation	-	-
At Accumulated Impairment	-	-
Reversal of Impairment Losses during the Year	-	-
Transfers during the Year:	-	-
At Cost	-	-
At Accumulated Depreciation	-	-
At Accumulated Impairment	-	-
Carrying values at 30 June	**100**	**100**
Cost	100	100
Accumulated Depreciation	-	-
Accumulated Impairment	-	-
Estimated Fair Value of Investment Property at 30 June	**-**	**-**

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not measure all the Investment Properties.

The municipality is currently in the process of valuing all Investment Properties in terms of GRAP 16. It is expected that this process will be completed for inclusion in the 2010 financial statements.

Investment Property has been restated to adhere to the disclosure provisions for Investment Property. Refer to Note 38.3 on "Correction of Error" for details of the restatement.

All of the municipality's Investment Property is held under freehold interests and no Investment Property was pledged as security for any liabilities of the municipality.

There are no restrictions on the realisation of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

11.1 Investment Property carried at Fair Value:

The municipality's Investment Properties are accounted for according to the cost model and therefore no fair value has been determined.

11.2 Impairment of Investment Property:

The municipality has not tested its items of Investment Property for any potential impairment losses on assets. Furthermore, no review of the useful lives or depreciation methods applied to items of Investment Property have been performed. The aforementioned actions have not been carried out by the municipality due to the exemptions granted in terms of ASB Directive 4, March 2009.

12. LONG-TERM RECEIVABLES

	Gross Balances R	Provision Impairment R	Net Balances R
As at June 2010			
Car Loans	-	-	-
Study Loans	-	-	-
	-	-	-
Less: Current Portion transferred to Current Receivables:-			(0)
Car Loans			(0)
Study Loans			-
Total Long-term Receivables			**0**
As at 30 June 2009			
Car Loans	7,695	-	7,695
Study Loans	-	-	-
	7,695	-	7,695
Less: Current Portion transferred to Current Receivables:-			7,695
Car Loans			7,695
Study Loans			-
Total Long-term Receivables			**-**

CAR LOANS

In terms of the MFMA no Car Loans are granted to officials anymore. The outstanding amount is in respect of loans granted before 01 July 2005 and will continue until all loans have been repaid.

STUDY LOANS

In terms of the MFMA, Study Loans are no longer granted to officials. The outstanding amount is in respect of assistance granted to employees, which is recovered/expensed in the following financial year.

The municipality does not hold deposits or any other security for its Long-term Receivables.

No Long-term Receivables have been pledged as security for the municipality's financial liabilities.

13. PROVISIONS

	2010 R	2009 R
Performance Bonuses	549,846	498,462
Staff Leave	5,034,267	4,317,249
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 18 below)	673,944	689,568
Current Portion of Non-Current Provisions (See Note 19 below):	616,941	433,429
Long-term Service	616,941	433,429
Total Provisions	**6,874,998**	**5,938,709**

Performance Bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The movement in current provisions are reconciled as follows:

Current Provisions:

30 June 2010	Performance Bonuses	Staff Leave
Balance at beginning of year	498,462	4,317,249
Contributions to provision	236,945	717,018
Expenditure incurred	(185,561)	-
Balance at end of year	**549,846**	**5,034,267**

30 June 2009		
Balance at beginning of year	-	4,033,416
Contributions to provision	498,462	283,833
Expenditure incurred	-	-
Balance at end of year	**498,462**	**4,317,249**

Current Portion of Non-Current Provisions:

30 June 2010	Performance Bonuses	Staff Leave
Balance at beginning of year	433,429	689,568
Contributions to provision	616,941	673,944
Expenditure incurred	(433,429)	(689,568)
Balance at end of year	**616,941**	**673,944**

30 June 2009	Performance Bonuses	Staff Leave
Balance at beginning of year	303,597	534,484
Contributions to provision	433,429	689,568
Expenditure incurred	(303,597)	(534,484)
Balance at end of year	**433,429**	**689,568**

14. CREDITORS

30 June 2009	Performance Bonuses	Staff Leave
Trade Creditors	40,482,646	14,822,737
Payments received in Advance	57,531	-
Retentions	3,319,227	3,529,077
Staff Bonuses	2,022,339	1,578,152
Sundry Deposits	8,335	8,335
Other Creditors	66,389,594	4,499,696
Total Creditors	**112,279,671**	**24,437,997**

Creditors have been restated to correctly disclose the municipality's liability for Workmen's Compensation not yet assessed for previous years. Refer to Note 38.2 on "Correction of Error" for details of the restatement.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiaited by the municipality.

15. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

15.1 Conditional Grants from Government	**179,234,769**	**128,151,274**
National Government Grants	133,480,061	96,177,198
Provincial Government Grants	43,829,211	29,058,769
Other Spheres of Government	1,925,497	2,915,307
Total Conditional Grants and Receipts	**179,234,769**	**128,151,274**

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 24 for the reconciliation of Grants from Government. The Unspent Grants are cashbacked by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

16. OPERATING LEASE LIABILITIES / PAYABLES

Operating Leases are recognised on the straight-line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

	2010 R	2009 R
Balance at beginning of year	7,873	3,084
Operating Lease expenses recorded	660,704	(654,990)
Operating Lease payments effected	665,003	659,778
Total Operating Lease Liabilities	**1,333,581**	**7,873**

16.1 Leasing Arrangements

The Municipality as Lessee:

Operating Leases relate to Property, Plant and Equipment with lease terms not longer than five years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

16.2 Amounts payable under Operating Leases

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:

Buildings:	460,497	278,411
Up to 1 year	271,340	278,411
2 to 5 years	189,157	-
More than 5 years	-	-
Other Equipment:	811,473	1,036,500
Up to 1 year	296,621	271,801
2 to 5 years	514,853	764,698
More than 5 years	-	-
Total Operating Lease Liabilities	**1,271,970**	**1,314,911**

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	(660,704)	654,990
Total Operating Lease Expenses	**(660,704)**	**654,990**

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Buildings
- Office Equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on Office Equipment:

(i) The equipment shall remain the property of the lessor.
(ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.
(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.
(iii) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

17. LONG-TERM LIABILITIES

	2010 R	2009 R
Annuity Loans	7,652,081	8,626,446
Sub-total	7,652,081	8,626,446
Less: Current Portion transferred to Current Liabilities:-	1,023,692	974,365
Annuity Loans	1,023,692	974,365
Total Operating Lease Liabilities (neither past due, nor impaired)	**6,628,389**	**7,652,081**

17.1 Summary of Arrangements

The Annuity Loan is repaid over a period of 7 (2009: 8) years and at an interest rate of 5,00% (2009: 5,00%) per annum. The Annuity Loans is not secured.

Refer to Appendix "A" for more detail on Long-term Liabilities.

17.2 Breach of Loan Agreement

The municipality did not default on any payment of its Long-term Liabilities. No terms for payment have been re-negotiaited by the municipality.

18. RETIREMENT BENEFIT LIABILITIES

18.1 Post-retirement Health Care Benefits Liability

Balance at beginning of Year	17,770,499	15,228,332
Contributions to Provision	4,502,610	3,231,735
Balance at end of Year	22,273,109	18,460,067
Transfer to Current Provisions	(673,944)	(689,568)
Total Operating Lease Liabilities (neither past due, nor impaired)	**21,599,165**	**17,770,499**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund

on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2010 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

	2010	2009
In-service Members (Employees)	280	206
In-service Non-members (Employees)	181	-
Continuation Members (Retirees, widowers and orphans)	36	38
Total Members	**497**	**244**

Total Members

The liability in respect of past service has been estimated as follows:

In-service Members	13,941,747	10,635,693
Continuation Members	8,331,362	7,824,374
Total Liability	**22,273,109**	**18,460,067**

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bestmed
- Bonitas
- Fed Health
- Gen Health
- Keyhealth
- LA Health
- Medicover
- Resolution
- Samwumed

The Current-service Cost for the year ending 30 June 2010 is estimated to be R867 173, whereas the cost for the ensuing year is estimated to be R1 052 744 (2009: R970 945 and R867 173 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	9.22%	9.11%
Health Care Cost Inflation Rate	7.27%	7.78%
Net Effective Discount Rate	1.82%	1.23%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

	2010 R	2009 R
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	18,460,067	15,762,816
Current service costs	867,173	970,945
Interest cost	1,650,709	1,659,576
Benefits paid	(689,568)	(534,484)
Actuarial losses / (gains)	1,984,728	601,214
Present Value of Fund Obligation at the end of the Year	22,273,109	18,460,067
Actuarial losses / (gains) unrecognised	-	-
Total Recognised Benefit Liability	**22,273,109**	**18,460,067**
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	22,273,109	18,460,067
Unfunded Accrued Liability	22,273,109	18,460,067
Unrecognised Actuarial Gains / (Losses)	-	-
Total Benefit Liability	**22,273,109**	**18,460,067**
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	867,173	970,945
Interest cost	1,650,709	1,659,576
Actuarial losses / (gains)	1,984,728	601,214
Total Post-retirement Benefit included in Employee Related Costs (Note 27)	**4,502,610**	**3,231,735**

The history of experienced adjustments is as follows:

	2010 R	2009 R	2008 R	2007 R	2006 R
Present Value of Defined Benefit Obligation	22,273,109	18,460,067	15,762,816	13,331,046	-
Deficit	**22,273,109**	**18,460,067**	**15,762,816**	**13,331,046**	**-**
Experienced adjustments on PPlan Liabilities	(2,610,116)	(1,084,656)	-	-	-

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.

	2010 R	2009 R
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	417,300	437,065
Effect on the defined benefit obligation	3,362,592	2,570,140
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	(340,700)	(356,789)
Effect on the defined benefit obligation	(2,721,536)	(2,142,742)

The municipality expects to make a contribution of R3 076 million (2009: R2 956 million) to the Defined Benefit Plans during the next financial year.

Refer to Note 47 "Multi-employer Retirement Benefit Information" to the Annual Financial Statements for more information regarding the municipality's other retirement funds that are Provincially and Nationally administered.

19. NON-CURRENT PROVISIONS

Provision for Long Service Awards	2,430,228	2,731,024
Total Non-current Provisions	**2,430,228**	**2,731,024**

The movement in Non-current Provisions are reconciled as follows:

Long-service Awards:

Balance at beginning of year	2,731,024	2,597,771
Contributions to provision	316,145	566,682
	3,047,169	3,164,453
Transfer to current provisions	(616,941)	(433,429)
Total Liability	**2,430,228**	**2,731,024**

19.1 Long Service Awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after five years (2009: 10 years) of continuous service, and every five years thereafter, to 25 years (2009: 45 years) of continuous service to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2010 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

At year end, 434 (2009: 390) employees were eligible for Long-services Awards.

The Current-service Cost for the year ending 30 June 2010 is estimated to be R499 171, whereas the cost for the ensuing year is estimated to be R731 117 (2009: R408 041 and R499 171 respectively).

	2010 R	2009 R
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	9.01%	9.04%
Cost Inflation Rate	5.60%	6.62%
Net Effective Discount Rate	3.22%	2.27%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	3,164,453	2,901,368
Current service costs	499,171	408,041
Interest cost	266,824	302,305
Benefits paid	(433,429)	(303,597)
Actuarial losses / (gains)	(257,242)	(143,664)
Losses / (gains) on curtailments	(192,608)	-
Present Value of Fund Obligation at the end of the Year	**3,047,169**	**3,164,453**
Actuarial losses / (gains) unrecognised	-	-
Total Recognised Benefit Liability	**3,047,169**	**3,164,453**
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	3,047,169	3,164,453
Unfunded Accrued Liability	3,047,169	3,164,453
Actuarial gains / (losses) not recognised	-	-
Total Benefit Liability	3,047,169	**3,164,453**
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	499,171	408,041
Interest cost	266,824	302,305
Actuarial losses / (gains)	(257,242)	(143,664)
Losses / (Gains) arising from curtailments or settlements	(192,608)	-
Total Post-retirement Benefit included in Employee Related Costs (Note 27)	**316,145**	**566,682**

The history of experienced adjustments is as follows:

	2010 R	2009 R	2008 R	2007 R	2006 R
Present Value of Defined Benefit Obligation	3,047,169	3,164,453	2,901,368	2,623,583	-
Deficit	**3,047,169**	**3,164,453**	**2,901,368**	**2,623,583**	**-**
Experienced adjustments on PPlan Liabilities	(124,535)	-	-	-	-

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.

	2010 R	2009 R
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	44,268	44,000
Effect on the defined benefit obligation	134,789	188,856
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	(39,646)	(39,536)
Effect on the defined benefit obligation	(124,955)	(171,837)

The municipality expects to make a contribution of R978 424 (2009: R765 995) to the defined benefit plans during the next financial year.

20. ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Capital Replacement Reserve (CRR)	40,268,696	36,835,517
Government Grants Reserve	372,134,027	240,586,171
Accumulated Surplus / (Deficit) due to the results of Operations	137,826,981	77,215,538
Total Accumulated Surplus	**550,229,704**	**354,637,226**

Accumulated Surplus has been restated to correctly classify amounts to be included in Creditors. Refer to Notes 38.1 and 38.2 on "Correction of Error" for details of the restatement.

Furthermore, Accumulated Surplus has been restated to adhere to correctly disclose the assets held by the municipality, previously expensed as Grant Expenditure from the MIG Grant. Refer to Notes 38.1 and 38.3 on "Correction of Error" for details of the restatement.

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

The **Government Grants Reserve** equals the carrying value of the items of property, plant and equipment financed from government grants. The Government Grants Reserve ensures consumer equity and is not backed by cash.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

21. SERVICE CHARGES

	2010 R	2009 R
Availability Charges	112,091	-
Sewerage and Water Charges	53,053,294	-
Total Service Charges	**53,165,385**	**-**

Service Charges were recognised for the first time in the reporting year and originate from consumer services rendered by the local municipalities on behalf of the municipality. Refer to Note 38.5.

The amounts disclosed above for revenue from Service Charges are in respect of services rendered, which are billed to the consumers on a monthly basis according to approved tariffs.

22. RENTAL OF FACILITIES AND EQUIPMENT

Rental Revenue from Buildings	79,640	101,312
Rental Revenue from Equipment	69,851	266,498
Total Rental of Facilities and Equipment	**149,491**	**367,810**

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

23. INTEREST EARNED

External Investments:

Investments	20,994,786	25,294,524
Other Interest	57,815	45,581
Total Rental of Facilities and Equipment	**21,052,602**	**25,340,104**
Total Interest Earned	**21,052,602**	**25,340,104**

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Avaliable-for-Sale Financial Assets	57,815	45,581
Held-to-Maturity Investments	20,994,786	25,294,524
Loans and Receivables	-	-
Total Rental of Facilities and Equipment	**21,052,602**	**25,340,104**

24. GOVERNMENT GRANTS AND SUBSIDIES

National Equitable Share	195,763,613	140,291,427
Provincial Health Subsidies	13,996,135	17,459,130
Provincial Road Subsidies	21,967,623	24,862,509
Other Subsidies	21,976,967	18,614,224
Operational Grants	**253,704,337**	**201,227,291**

	2010 R	2009 R
Conditional Grants	**260,075,024**	**240,617,999**
National: Equitable Share	45,068,746	38,450,017
National: FMG	1,610,876	593,351
National: MIG	137,880,629	178,274,515
National: MSIG	1,004,718	1,855,189
National: DWAF	61,315,879	6,147,899
National: Public Works Grant	36,803	-
National: Sport and Development	405,555	5,936,287
Provincial: Treasury Grant	-	370,760
Provincial: Agriculture Grant	5,763,106	-
Provincial: DHLGTA Grant	476,050	6,375,672
Provincial: Transport Grant	5,077,852	-
Other Spheres of Government: Various Grants	1,434,810	2,614,310
Total Government Grants and Subsidies	513,779,361	441,845,289

Operational Grants:

24.1 National: Equitable Share	**195,763,613**	**140,291,427**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In terms of the allocation made by DPLG the funds are also utilised for municipal health services, institutional reform and to enable the municipality to execute its functions as the district authority.

24.2 Provincial: Health Subsidies

Balance unspent at beginning of year	-	-
Current year receipts - included in Public Health vote	13,996,135	17,459,130
Conditions met - transferred to Revenue	(13,996,135)	(17,459,130)
Conditions still to be met - transferred to Current Assets (see Note 5)	**-**	**-**

This grant has been used to fund primary and environmental health care services (included in Appendix "D"). Primary health care services are in the process of being transferred to Provincial Government. This grant will then fall away. No funds have been withheld.

Conditional Grants:

24.3 National: Equitable Share

	2010 R	2009 R
Balance unspent at beginning of year	16,708,263	16,563,781
Current year receipts	28,360,483	38,594,500
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(45,067,146)	-
Conditions met - transferred to Revenue: Capital Expenses	(1,600)	(38,450,017)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**(0)**	**16,708,263**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In terms of the allocation made by DPLG the funds are also utilised for municipal health services, institutional reform and to enable the municipality to execute its functions as the district authority.

24.4 National: FMG Grant

Balance unspent at beginning of year	8,265,751	1,880,587
Current year receipts	750,000	6,978,515
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(1,608,248)	-
Conditions met - transferred to Revenue: Capital Expenses	(2,629)	(593,351)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**7,404,875**	**8,265,751**

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

24.5 National: MIG Funds

Balance unspent at beginning of year	33,152,678	44,408,779
Current year receipts	187,341,140	167,018,415
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(11,194,988)	(39,948,364)
Conditions met - transferred to Revenue: Capital Expenses	(126,685,641)	(138,326,151)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**82,613,189**	**33,152,678**

The Municipal Infrastructure Grant (MIG) was allocated for the construction of basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure; and eradicate bucket sanitation systems. No funds have been withheld.

24.6 National: MSIG Funds

	2010 R	2009 R
Balance unspent at beginning of year	2,249,664	3,369,853
Current year receipts	735,000	735,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(1,004,718)	-
Conditions met - transferred to Revenue: Capital Expenses	-	(1,855,189)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**1,979,946**	**2,249,664**

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

24.7 National - Department of Water Affairs and Forestry (DWAF)

Balance unspent at beginning of year	26,791,126	17,729,024
Current year receipts	53,720,446	15,210,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(61,315,879)	-
Conditions met - transferred to Revenue: Capital Expenses	-	(6,147,899)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**19,195,692**	**26,791,126**

This grant was used for the operation and maintenance of sewerage and water schemes transferred from DWAF to the municipality and the payment of salaries of staff transferred from DWAF. No funds have been withheld.

24.8 National - Department of Rural Development and Land Reform

Balance unspent at beginning of year	402,614	402,614
Current year receipts	-	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**402,614**	**402,614**

This grant was used to promote rural development and land reform. No funds have been transferred to the municipality.

24.9 National - Department of Public Works

	2010 R	2009 R
Balance unspent at beginning of year	337,766	337,766
Current year receipts	5,732,000	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(36,803)	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**6,032,964**	**337,766**

This grant was utilsed for the maintenance of roads in the municipality area of jurisdiction. No funds have been withheld.

24.10 National: Sport and Development

Balance unspent at beginning of year	8,269,336	8,218,623
Current year receipts	7,987,000	5,987,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(405,555)	-
Conditions met - transferred to Revenue: Capital Expenses	-	(5,936,287)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**15,850,781**	**8,269,336**

This grant was received for the building and maintenance of libraries in the district. No funds have been withheld.

24.11 Provincial: Office of the Premier

Balance unspent at beginning of year	21,569	21,569
Current year receipts	-	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**21,569**	**21,569**

This grant was allocated to assist the municipality on staging national events e.g. Woman's Day, Heritage Day, etc. No funds have been withheld.

24.12 Provincial: Treasury

	2010 R	2009 R
Balance unspent at beginning of year	158,962	529,722
Current year receipts	-	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	(370,760)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**158,962**	**158,962**

This grant was received to support the municipality in the improvement of its financial administration. No funds have been withheld.

24.13 Provincial: Department of Agriculture

Balance unspent at beginning of year	-	-
Current year receipts	17,100,000	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(905,119)	-
Conditions met - transferred to Revenue: Capital Expenses	(4,857,987)	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**11,336,894**	**-**

This grant was allocated for soil conservation in different areas within the district. No funds have been withheld.

24.14 Provincial: Department of Housing, Local Government and Traditional Affairs (DHLGTA)

Balance unspent at beginning of year	10,812,784	15,916,422
Current year receipts	2,655,723	1,341,759
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(476,050)	-
Conditions met - transferred to Revenue: Capital Expenses	-	(6,375,672)
Other Transfers	-	(69,725)
Conditions still to be met - transferred to Liabilities (see Note 15)	**12,992,457**	**10,812,784**

This grant was allocated for the funding of various projects e.g. LED Strategy, IDP, PMS, PIMS, etc to assist in improving the municipality performance. No funds have been withheld.

24.15 Provincial - Department of Economic Affairs

	2010 R	2009 R
Balance unspent at beginning of year	9,110,136	5,652,423
Current year receipts	-	3,457,713
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**9,110,136**	**9,110,136**

This grant was received to assist in local economic development. No funds have been withheld.

24.16 Provincial - Department of Health

Balance unspent at beginning of year	3,468,273	3,468,273
Current year receipts	-	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	(3,468,273)	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**-**	**3,468,273**

This grant contributes towards addressing HIV/AIDS issues within the district's local municipalities areas and was used for the purcahse of drugs, home-based care kits, etc. No funds have been withheld.

24.17 Provincial - Department of Transport

Balance unspent at beginning of year	5,487,044	1,387,044
Current year receipts	9,800,000	4,100,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(5,077,852)	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**10,209,192**	**5,487,044**

The Transport Grant was allocated for the maintenance of proclaimed roads in the municipality area of jurisdiction. No funds have been withheld.

24.18 Other Spheres of Government

	2010 R	2009 R
Balance unspent at beginning of year	2,915,307	129,617
Current year receipts	445,000	5,400,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(1,434,810)	-
Conditions met - transferred to Revenue: Capital Expenses	-	(2,614,310)
Other Transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 15)	**1,925,497**	**2,915,307**

The municipality receives grants from other spheres of government aimed at the social upliftment of the district's communities. The grants were utilised for this purpose. No funds have been withheld.

24.19 Changes in levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2010), government grant funding is expected to increase over the forthcoming three financial years.

25. PUBLIC CONTRIBUTIONS AND DONATIONS

Other Donations	50,000	-
Total Public Contributions and Donations	**50,000**	**-**

26. OTHER REVENUE

Commission on Collections	81,473	80,550
Tender Documents	283,800	190,430
Other Income	1,390,244	728,937
Total Other Income	**1,755,518**	**999,917**

The amounts disclosed above for Other Income are in respect of services (other than described in Notes 21 to 22),, rendered, which are billed to or paid for by the users - as the services are required according to approved tariffs.

27. EMPLOYEE RELATED COSTS

	2010 R	2009 R
Employee Related Costs - Salaries and Wages	79,014,308	45,517,474
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	15,894,653	10,623,108
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	7,528,991	5,265,019
Housing Benefits and Allowances	963,931	1,015,828
Performance Bonuses	185,561	-
Defined Benefit Plan Expense:	4,818,755	3,798,417
Current Service Cost	1,366,344	1,378,986
Interest Cost	1,917,533	1,961,881
Net Actuarial (gains)/losses recognised	1,534,878	457,550
Vested Past Service Cost	-	-
Total Employee Related Costs	**108,406,199**	**66,219,846**

No advances were made to employees. Loans to employees are set out in Note 12.

Remuneration of the Municipal Manager

Annual Remuneration	497,747	450,450
Performance Bonus	45,232	-
Car and Other Allowances	191,558	173,356
Contributions to UIF, Medical and Pension Funds	143,723	120,588
Total	**878,261**	**744,394**

Remuneration of the Director: Finance

Annual Remuneration	183,695	290,615
Acting Allowance	252,113	118,500
Performance Bonus	-	-
Car and Other Allowances	140,750	129,941
Contributions to UIF, Medical and Pension Funds	**66,183**	**66,183**
Total	**642,741**	**605,239**

The post was vacant as from 01 June 2008 until 31 October 2009. An Acting Allowance was paid for the period 01 June 2008 to 31 October 2009.

Remuneration of the Director: Corporate Services

Annual Remuneration	462,984	418,990
Performance Bonus	35,082	-
Car and Other Allowances	190,260	172,181
Contributions to UIF, Medical and Pension Funds	122,072	103,292
Total	**810,398**	**694,462**

Remuneration of the Director: Health Services

	2010 R	2009 R
Annual Remuneration	462,984	418,990
Performance Bonus	35,082	-
Car and Other Allowances	190,260	172,181
Contributions to UIF, Medical and Pension Funds	122,072	103,292
Total	**810,398**	**694,462**

Remuneration of the Director: Integrated Planning and Development

Annual Remuneration	462,984	418,990
Performance Bonus	35,082	-
Car and Other Allowances	190,260	172,181
Contributions to UIF, Medical and Pension Funds	122,072	103,292
Total	**810,398**	**694,462**

Remuneration of the Director: Technical Services

Annual Remuneration	462,984	418,990
Performance Bonus	35,082	-
Car and Other Allowances	190,260	172,181
Contributions to UIF, Medical and Pension Funds	122,072	103,292
Total	**810,398**	**694,462**

The following compensation was payable to key management personnel in terms of IAS 19 as at 30 June:

Staff Leave Benefits:-

Municipal Manager	27,330	18,644
Chief Financial Officer	17,232	-
Director: Corporate Services	63,268	46,427
Director: Health Services	16,890	29,208
Director: Integrated Planning and Development	19,744	61,185
Director: Technical Services	6,069	39,527
Total	**150,533**	**194,992**

28. REMUNERATION OF COUNCILLORS

Executive Mayor	432,206	403,932
Speaker	345,785	323,145
Mayoral Committee Members	1,919,678	1,716,711
Councillors	1,256,196	1,120,897
Sundry Allowances (Cellular Phones, etc)	1,506,184	1,426,537
Total Councillors' Remuneration	**5,460,050**	**4,991,222**

In-kind Benefits

The Councillors occupying the positions of Executive Mayor, Speaker and Mayoral Committee Members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official Council transportation when engaged in official duties.

The Executive Mayor has use of Council owned vehicles for official duties.

29. DEPRECIATION AND AMORTISATION

The municipality has taken advantage of the transitional provisions on the measurement of assets set out in Directive 4 of the Accounting Standards Board on GRAP 17. Therefore, no depreciation has been calculated for the current year.

30. IMPAIRMENT LOSSES

30.1 Impairment Losses on Financial Assets

	2010 R	2009 R
Impairment Losses Recognised:	**24,683,541**	**13,573,358**
Consumer Debtors	24,683,541	-
Other Debtors	-	13,573,358
Impairment Losses Reversed:	**(17,489,414)**	**-**
Consumer Debtors	-	-
Other Debtors	(17,489,414)	-
Total Impairment Losses	**7,194,127**	**13,573,358**

Impairment Losses on Consumer Debtors were recognised for the first time in the reporting year and originate from consumer services rendered by the local municipalities on behalf of the municipality. Refer to Note 38.5.

31. FINANCE COSTS

Loans and Payables at amortised cost	407,194	454,730
Other Interest Paid	77,237	31,806
Total Interest Paid on External Borrowings	**484,431**	**486,536**

The weighted average capitalisation rate on funds borrowed generally is 5,32% per annum (2009: 5,27% per annum).

32. BULK PURCHASES

Water	12,265,344	-
Total Bulk Purchases	**12,265,344**	**-**

Bulk Purchases were recognised for the first time in the reporting year and originate from consumer services rendered by the local municipalities on behalf of the municipality. Refer to Note 38.5.

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Water is mainly purchased from DWAF.

33. CONTRACTED SERVICES

	2010 R	2009 R
Cash-in-Transit Services	7,661	16,110
Consultants' Fees	35,193,566	5,264,428
Security Services	298,330	105,882
Total Contracted Services	**35,499,558**	**5,386,419**

Included in the Consultants' Fees is an amount of R4 776 047 (2009: R5 056 367) in respect of architectural and planning fees for a new administration office block. It was not certain at year-end whether the building project would realise.

34. GRANTS AND SUBSIDIES PAID

Community Projects	157,053,214	123,244,233
Free Basic Services	61,888,238	16,670,553
Problem Animal Control	12,000	12,000
Tourism	13,200	80,775
Other	116,158	96,438
Total Grants and Subsidies	**219,082,809**	**140,103,998**

Grants and Subsidies paid have been restated to correctly record the assets held by the municipality, previously expensed as Grant Expenditure from the MIG Grant. Refer to Note 38.4 on "Correction of Error" for details of the restatement.

Community Projects are in respect of conditional grants utilised for the upliftment of housing and basic service needs of communities within the municipality's area of jurisdiction.

Free Basic Services are in respect of providing basic service levels to indigent/residential households.

Problem Animal Control is paid to enable farmers to control animals that are dangerous to livestock. The grant is increased on an annual basis.

The **Tourism Grant** is paid annually as part of the municipality's aim to further local economic development in all its communities.

The **Executive Mayor** makes grants available on application after consultation with the Municipal Manager on the merits of such an application.

35. GENERAL EXPENSES

Included in General Expenses are the following:

	2010 R	2009 R
Advertising	628,192	1,193,223
Audit Fees	4,916,161	2,850,452
Communication (Radio)	1,706,415	1,930,600
Electricity	4,898,001	2,863,067
Estates Rates	88,947	1,602,852
Fuel and Oil	3,860,069	767,658
Printing and Stationery	1,457,250	1,100,358
Refurbishment of Water Schemes	15,692,116	29,131,133
Roads Operating Expenditure	-	20,081,630
Subsistence and Travelling	4,150,925	3,082,941
Systems Security and Software	1,170,087	1,148,846
Telephones	2,201,531	1,973,908
Twinning Agreements	-	(240,254)
Other General Expenses	40,416,126	8,830,131
Inter-departmental Charges	-	11,534
Total General Expenses	**81,185,820**	**76,328,080**

General Expenses have been restated to correctly disclose the liability of the municipality for Workmen's Compensation not yet assessed. Refer to Note 38.4 on "Correction of Error" for details of the restatement.

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense.

35.1 Material Losses	**261,500**	**38,501**
Vehicle Damages	261,500	38,501

36. DISCONTINUED OPERATIONS

No operations have been discontinued.

37. CHANGE IN ACCOUNTING POLICY

The municipality adopted no Accounting Standards for the first time during the financial year 2009/2010 in order to comply with the basis of preparation of the Annual Financial Statements as disclosed in Accounting Policy 1.

38. CORRECTION OF ERROR

Corrections were made during the previous financial years. Details of the corrections are described below:

38.1 Reclassification of Accumulated Surplus:

The prior year figures of Accumulated Surplus has been restated to correctly disclose the monies held by the municipality in terms of the disclosure notes indicated below.

The effect of the Correction of Error is as follows:

	Accumulated Surplus
Balances published as at 30 June 2008	**93,685,252**
Reclassify Creditors - Note 38.2	(765,281)
Reclassify Assets - Note 38.3	110,999,194
Restated Balances as at 30 June 2008	**203,919,166**
Transactions incurred for the Year 2008/2009	31,430,675
Correction of Error:	
Expenditure for Workmen's Compensation - Note 38.4	(472,660)
Capitalisation of Assets - Note 38.4	113,595,693
Reclassification of Transactions - Note 38.5	6,164,352
Restated Balances as at 30 June 2009	**354,637,226**
Transactions incurred for the Year 2009/2010	98,031,992
Correction of Error:	
Reclassification of Transactions - Note 38.5	97,560,487
Restated Balances as at 30 June 2010	**550,229,704**

38.2 Reclassification of Creditors:

The prior year figures of Creditors have been restated to correctly disclose the liability of the municipality for Workmen's Compensation not yet assessed.

The effect of the Correction of Error is as follows:

	Creditors
Balances published as at 30 June 2008	**48,135,584**
Reclassification of Creditors to reflect the liability for Workmen's Compensation	765,281
Restated Balances as at 30 June 2008	**48,900,864**
Transactions incurred for the Year 2008/2009	(24,935,528)
Recognition of Workmen's Compensation for the Year 2008/09	472,660
Restated Balances as at 30 June 2009	**24,437,997**

38.3 Reclassification of Property, Plant and Equipment and Accumulated Surplus:

The prior year figures of Property, Plant & Equipment and Accumulated Surplus have been restated to correctly record the assets held by the municipality, previously expensed as Grant Expenditure from the MIG Grant.

The effect of the Correction of Error is as follows:

	Investment Property	PPE at Cost	WIP at Cost
Balances published as at 30 June 2008	**-**	**36,109,871**	**-**
Reclassification of Investment Property	100	(100)	-
Reclassification of Assets at Cost capitalised from MIG Grant	-	8,826,991	-
Reclassification of Work-in-Progress capitalised from MIG Grant	-	-	102,172,204
Restated Balances as at 30 June 2008	**100**	**44,936,761**	**102,172,204**
Transactions incurred for the Year 2008/2009	-	6,966,194	-
Assets capitalised from MIG Grant	-	256,000	113,339,693
Assets completed and transferred from WIP to At Cost	-	5,561,984	(5,561,984)
Restated Balances as at 30 June 2009	**100**	**57,720,940**	**209,949,912**

38.4 Reclassification of Expenditure for Grants and Subsidies Paid and General Expenses:

The prior year figures of Grants and Subsidies Paid have been restated to correctly record the assets held by the municipality, previously expensed as Grant Expenditure from the MIG Grant.

The prior year figures of General Expenses have been restated to correctly disclose the liability of the municipality for Workmen's Compensation not yet assessed.

The effect of the Correction of Error is as follows:

	Grants Paid	General Expenses
Balances as per AFS previously published for 2008/2009	253,699,691	75,843,886
Recognition of Workmen's Compensation for the Year 2008/09	-	472,660
Assets capitalised from MIG Grant	(113,595,693)	-
Balances as at 30 June 2007 per AFS published for 2008/2009	**140,103,998**	**76,316,546**

38.5 Reclassification of Accumulated Surplus:

Corrections were made and appropriated to the Accumulated Surplus Account during the financial year ended 30 June, 2010.??

Details of the appropriations are as follows:

Unappropriated Surplus Account:	2010 R	2009 R
Corrections to Bank	10,000	(4,262,286)
Corrections to Creditors	220,776	7,721,811
Corrections to Debtors	(1,167,448)	(230,347)
Corrections to VAT Receivable	-	4,798,914
Corrections to Expenditure	1,569,593	470,542
Corrections to Revenue	-	2,178
Adjustment of Government Grant Reserve	-	(2,336,460)
Accounting for Sanitation and Water Services by the Local Municipalities	96,927,566	-
Increase / (Decrease) in Accumulated Surplus Account	**97,560,487**	**6,164,352**

The Assets, Liabilities, Revenue and Expenditure of the municipality have been adjusted as indicated above to correct transactions that occurred in previous financial years. Due to the nature of the transactions and the volumes thereof, opening balances have not been restated and the transactions were posted prospectively.

During the financial year 2009/10 the municipality obtained the information from its local municipalities in respect of the services for sanitation and water rendered on its behalf. Due to the nature of the transactions and the volumes thereof, opening balances have not been restated and the transactions were posted prospectively.

39. CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the Year	98,031,992	144,553,707
Adjustment for:		
Correction of prior year Error	97,560,487	6,164,352
Gains on Disposal of Property, Plant and Equipment	390,524	(339,716)
Contribution to Retirement Benefit Liabilities	4,502,610	3,231,735
Expenditure incurred from Retirement Benefit Liabilities	(689,568)	(534,484)
Contribution to Provisions - Current	953,963	782,295
Contribution to Provisions - Non-current	316,145	566,682
Expenditure incurred from Provisions - Current	(618,990)	(303,597)
Contribution to Impairment Provision	114,498,653	13,573,358
Bad Debts Written-off	-	(3,652,300)
Investment Income	(21,052,602)	(25,340,104)
Finance Costs	484,431	486,536
Operating surplus before working capital changes	**294,377,645**	**139,188,464**

	2010 R	2009 R
Decrease/(Increase) in Inventories	(6,764,579)	-
Decrease/(Increase) in Consumer Debtors	(200,982,333)	-
Decrease/(Increase) in Other Debtors	23,242,578	7,493,324
Decrease/(Increase) in VAT Receivable	(24,373,907)	(1,687,940)
Increase/(Decrease) in Creditors	87,841,674	(24,462,868)
Increase/(Decrease) in Conditional Grants and Receipts	51,083,495	8,135,178
Increase/(Decrease) in Operating Lease Liabilities	1,325,708	4,788
Cash generated by / (utilised in) Operations	**225,750,282**	**128,670,947**

40. NON-CASH INVESTING AND FINANCING TRANSACTIONS

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2009/2010 financial year.

41. FINANCING FACILITIES

The municipality did not have any Financing Facilities available at any time during the two financial years.

42. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities (See Note 17)	7,652,081	8,626,446
Used to finance Community Projects (Bucket eradication)	(7,652,081)	(8,626,446)
Sub-total	-	-
Cash set aside for the Repayment of Long-term Liabilities (See Notes 13 and 17)	-	-
Balances as at 30 June 2007 per AFS published for 2008/2009	**-**	**-**

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

43. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

43.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:		
Opening balance	31,206,062	8,171,766
Unauthorised Expenditure current year	103,505,068	23,034,296
Approved by Council or condoned	(31,206,062)	-
To be recovered – contingent asset (see Note 50)	-	-
Transfer to receivables for recovery (see Note 5)	-	-
Unauthorised Expenditure awaiting authorisation	**103,505,068**	**31,206,062**

Incident	Disciplinary Steps / Criminal Proceedings
Budgeted amounts exceeded:- • Employee Related Cost - R7 579 380 (2009: R0) • Provision for Bad Debts - R7 194 127 (2009: R13 573 358) • Repairs and Maintenance - R19 247 027 (2009: R0) • Bulk Purchases - R10 265 344 (2009: R0) • Contracted Services - R35 180 740 (2009: R0) • General Expenses - R23 169 451 (2009: R5 524 624) • Loss on Disposals - R390 524 (2009: R0)	None
Payment to Maximum Profit Recovery - R478 475 (2009: R0)	None. It is endeavoured to obtain replacement equipment or a refund.

43.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:	2010 R	2009 R
Opening balance	1,531,052	-
Fruitless and Wasteful Expenditure current year	77,237	1,531,052
Condoned or written off by Council	(1,446,786)	-
To be recovered – contingent asset (see Note 50)	-	-
Transfer to receivables for recovery (see Note 5)	-	-
Fruitless and Wasteful Expenditure awaiting condonement	**161,504**	**1,531,052**

Incident	Disciplinary Steps / Criminal Proceedings
Interest on late payments - R377 237 (2009: R31 806)	None

43.3 Irregular Expenditure

To the best of management's knowledge, instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

44. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

44.1 Contributions to organised local government - SALGA

Opening Balance	-	-
Council Subscriptions	426,851	426,851
Amount Paid - current year	(426,851)	(426,851)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	**-**	**-**

44.2 Audit Fees

	2010 R	2009 R
Opening Balance	-	-
Current year Audit Fee	4,916,161	2,500,396
Amount Paid - current year	(4,916,161)	(2,500,396)
Amount Paid - previous years		-
Balance Unpaid (included in Creditors)	**-**	**-**

44.3 VAT

VAT input payables and VAT output receivables are shown in Note 6. All VAT returns have been submitted by the due date throughout the year.

44.4 PAYE and UIF

Opening Balance	-	-
Current year Payroll Deductions	11,999,573	9,450,404
Amount Paid - current year	(11,999,573)	(9,450,404)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	**-**	**-**

44.5 Pension and Medical Aid Deductions

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	19,533,505	16,089,764
Amount Paid - current year	(19,528,030)	(16,089,764)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	**5,475**	**-**

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in the June 2010 payroll, as well as the municipality's contributions to these funds. These amounts were paid during July 2010.

44.6 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

No known matters existed at reporting date.

44.7 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Department	Date	Successful Tenderer	Reason	Amount
Corporate Services	September 2009	Tekams Audio Video	Nikon D5000 Digital Camera with accessories	111,149.85 Excl. VAT
Only one quotation received as other suppliers do not stock the camera.				
Community and Health Services	November 2009	Don Gresswell Library Products	Furniture and Shelving	102,318.10
	November 2009	Apex Stationers		38,641.20 Excl. VAT
The only responsive quotations received.				
Supply Chain Management	February 2010	Lithotech	Stationery	6,840.00 Excl. VAT
The sole supplier for the stationery requested.				
Community and Health Services	April 2010	Merck Chemicals	Laboratory Equipment	81,609.18
The only responsive quotations received.				
Special Project Unit	April 2010	Gem Instant Print	Embroidery on Golf Shirts, Jackets and Sport Bags	153,731.70
	April 2010	Black Walk Trading		9,991.00 Excl. VAT
Only two service providers responded on time, each time quotations were requested.				
Community and Health Services	Year 2009/ 2010	Various occasions (12)	Accommodation, Catering, Transport, Conferences, etc	195,581.88 Excl. VAT
12 occasions during the financial year for various reasons amounting to R195,581.88 (excl. VAT)				
Corporate Services	Year 2009/ 2010	Various occasions (14)	Advertising, Courses, Sponsors, Training, Services & Repairs	268,287.60 Excl. VAT
14 occasions during the financial year for various reasons amounting to R268,287.60. (excl. VAT)				
Engineering Services	Year 2009/ 2010	Various occasions (3)	Catering, Repairs & Security Gate	27,107.00 Excl. VAT
3 occasions during the financial year for various reasons amounting to R27,107.00 (excl. VAT)				
Financial Services	Year 2009/ 2010	Various occasions (4)	Furniture, Software Services and Workshops	85,551.69 Excl. VAT
4 occasions during the financial year for various reasons amounting to R85,551.69 (excl. VAT)				
Financial Services	Year 2009/ 2010	Various occasions (4)	Booklets, Fertiliser, Irrigation, Samplers & Training	103,440.41 Excl. VAT
The only service provider that can supply the specific products needed for the projects amounting to R103,440.41 (excl. VAT)				
Financial Services	Year 2009/ 2010	Business Connexions (3 occasion)	Software Services	174,8112.05 Excl. VAT
The provider is the owner of the financial system and therefore the only provider who may change programming and source codes.				
Integrated Planning & Economic Development	Year 2009/ 2010	Various occasions (5)	Accommodation, Performance Fees, Workshops, etc.	88,564.80 Excl. VAT
5 occasions during the financial year for various reasons amounting to R88,564.80 (excl. VAT)				
Workshop	Year 2009/ 2010	Cradock Security cc	Security Services at 3 occasions	46,170.00 Excl. VAT
The sole supplier for the security services reqested at 3 occasions amounting to R46,170.00 (excl. VAT)				

45. COMMITMENTS FOR EXPENDITURE

45.1 Capital Commitments

Commitments in respect of Capital Expenditure:

	2010 R	2009 R
- Approved and Contracted for:-	**-**	**9,425,313**
Infrastructure	-	-
Community	-	9,208,147
Heritage	-	-
Other	-	217,166
Housing Development Fund	-	-
Investment Properties	-	-
- Approved but Not Yet Contracted for:-	**-**	**-**
Infrastructure	-	-
Community	-	-
Heritage	-	-
Other	-	-
Housing Development Fund	-	-
Investment Properties	-	-
Total Capital Commitments	**-**	**9,425,313**
This expenditure will be financed from:		
External Loans	-	-
Capital Replacement Reserve	-	-
Government Grants	-	9,425,313
District Council Grants	-	-
Public Contributions	-	-
Own Resources	-	-
	-	**9,425,313**

45.2 Lease Commitments

Non-cancellable Operating Lease Commitments are disclosed in Note 16.

46. FINANCIAL INSTRUMENTS

46.1 Classification

FINANCIAL ASSETS:

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

FINANCIAL ASSETS	CLASSIFICATION	2010 R	2009 R
Long-term Receivables			
Car Loans	Loans and receivables	0	-
Consumer Debtors			
Sewerage	Loans and receivables	33,455,321	-
Water	Loans and receivables	35,538,944	-
Other Debtors			
Government Subsidy Claims	Loans and receivables	10,095,644	17,608,012
Projects	Loans and receivables	60,734	1,380,364
Recoverable Works	Loans and receivables	146,486	146,486
Short-term Loans	Loans and receivables	2,306,686	19,101,652
Sundry Deposits	Loans and receivables	907,732	808,590
Sundry Debtors	Loans and receivables	9,707,883	7,422,639
Bank, Cash and Cash Equivalents			
Call Deposits	Available for sale	112,040,643	115,060,738
Bank Balances	Available for sale	342,084,802	254,765,637
Current Portion of Long-term Receivables			
Car Loans	Loans and receivables	(0)	7,695
		546,344,874	416,301,812
SUMMARY OF FINANCIAL ASSETS			
Loans and Receivables			
Long-term Receivables	Car Loans	0	-
Consumer Debtors	Sewerage	33,455,321	-
Consumer Debtors	Water	35,538,944	-
Other Debtors	Government Subsidy Claims	10,095,644	17,608,012
Other Debtors	Projects	60,734	1,380,364
Other Debtors	Recoverable Works	146,486	146,486
Other Debtors	Short-term Loans	2,306,686	19,101,652
Other Debtors	Sundry Deposits	907,732	808,590
Other Debtors	Sundry Debtors	9,707,883	7,422,639
Current Portion of Long-term Receivables	Car Loans	(0)	7,695
		92,219,430	**46,475,438**
Available for Sale:			
Bank,Cash and Cash Equivalents	Call Deposits	112,040,643	115,060,738
Bank,Cash and Cash Equivalents	Bank Balances	342,084,802	254,765,637
		454,125,445	369,826,375
Total Financial Assets		**546,344,874**	**416,301,812**

FINANCIAL LIABILITIES:

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

FINANCIAL LIABILITIES	CLASSIFICATION	2010 R	2009 R
Long-term Liabilities			
Annuity Loans	Financial liabilities at amortised cost	6,628,389	**7,652,081**
Creditors			
Trade Creditors	Financial liabilities at amortised cost	40,482,646	14,822,737
Payments received in Advance	Financial liabilities at amortised cost	57,531	-
Retentions	Financial liabilities at amortised cost	3,319,227	3,529,077
Staff Bonuses	Financial liabilities at amortised cost	2,022,339	1,578,152
Sundry Deposits	Financial liabilities at amortised cost	8,335	8,335
Other Creditors	Financial liabilities at amortised cost	66,389,594	4,499,696
Current Portion of Long-term Liabilities			
Annuity Loans	Available for sale	1,023,692	974,365

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:			
Long-term Liabilities	Annuity Loans	6,628,389	7,652,081
Creditors	Trade Creditors	40,482,646	14,822,737
Creditors	Payments received in Advance	57,531	-
Creditors	Retentions	3,319,227	3,529,077
Creditors	Staff Bonuses	2,022,339	1,578,152
Creditors	Sundry Deposits	8,335	8,335
Creditors	Other Creditors	66,389,594	4,499,696
Current Portion of Long-term Liabilities	Annuity Loans	1,023,692	974,365
		119,931,752	33,064,443
Total Financial Liabilities		**119,931,752**	**33,064,443**

46.2 Fair Value

The Fair Values of Financial Assets and Financial Liabilities are determined as follows:

- the Fair Value of Financial Assets and Financial Liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.

The management of the municipality is of the opinion that the carrying value of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Financial Assets and Financial Liabilities were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

46.3 Capital Risk Management

The municipality manages its capital in order to ensure that it is able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2009.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 7, Bank, Cash and Cash Equivalents and Equity, comprising Reserves and Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

	2010 R	2009 R
The gearing ratio at the year-end was as follows:		
Debt	7,652,081	8,626,446
Bank, Cash and Cash Equivalents	(342,084,802)	(254,765,637)
Net Debt	(334,432,721)	(246,139,191)
Total Capital	215,796,983	108,498,035
Net debt to total capital ratio	-154.98%	-226.86%

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 17.

Total Capital includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

46.4 Financial Risk Management Objectives

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

46.5 Significant Accounting Policies

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement

and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the Annual Financial Statements.

46.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 46.9 below). No formal policy exists to hedge volatilities in the interest rate market.

46.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

46.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the investment committee.

Consumer Debtors comprise of a large number of consumers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to interest rate risk as the municipality borrows funds at fixed interest rates.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 47.7 below:

Cash and Cash Equivalents:

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2010 would have decreased / increased by R2 984 207 (2009: decreased / increased by R2 388 523). This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

The municipality's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

46.7 Effective Interest Rates and Repricing Analysis

In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income-earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

30 June 2010

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6-12 Months	1-2 Years	2-5 Years	More than 5 years
	#	%	R	R	R	R		R
FIXED RATE INSTRUMENTS								
Unsecured Bank Facilities	**17**		**(7,652,081)**	**-**	**-**	**-**	**-**	**(7,652,081)**
DBSA		5.00%	(7,652,081)	-	-	-	-	(7,652,081)
Total Fixed Rate Instruments			**(7,652,081)**	**-**	**-**	**-**	**-**	**(7,652,081)**
VARIABLE RATE INSTRUMENTS								
Short-term Investment Deposits	7		112,040,643	112,040,643	-	-	-	-
Bank Balances and Cash	7		230,044,160	230,044,160	-	-	-	-
Total Fixed Rate Instruments			**342,084,802**	**342,084,802**	**-**	**-**	**-**	**-**

30 June 2009

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6-12 Months	1-2 Years	2-5 Years	More than 5 years
	#	%	R	R	R	R		R
FIXED RATE INSTRUMENTS								
Unsecured Bank Facilities	**17**		**(8,626,446)**	**-**	**-**	**-**	**-**	**(8,626,446)**
DBSA		5.00%	(8,626,446)	-	-	-	-	(8,626,446)
Total Fixed Rate Instruments			**(8,626,446)**	**-**	**-**	**-**	**-**	**(8,626,446)**
VARIABLE RATE INSTRUMENTS								
Short-term Investment Deposits	7		115,060,738	115,060,738	-	-	-	-
Bank Balances and Cash	7		139,704,899	139,704,899	-	-	-	-
Total Fixed Rate Instruments			**254,765,637**	**254,765,637**	**-**	**-**	**-**	**-**

46.8 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

46.9 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. A credit line overdraft facility of RXX million is available and is unsecured. Interest payable is linked to the prime interest rate.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6-12 Months	1-2 Years	2-5 Years	More than 5 years
	#	%	R	R	R	R		R
30 June 2010								
Non-interest Bearing		0.00%	112,279,671	112,279,671	-	-	-	-
Fixed Interest Rate Instruments		5.00%	9,059,085	696,853	696,853	1,393,705	4,181,116	2,090,558
			121,338,755	**112,976,524**	**696,853**	**1,393,705**	**4,181,116**	**2,090,558**
30 June 2009								
Non-interest Bearing		0.00%	24,437,997	24,437,997	-	-	-	-
Fixed Interest Rate Instruments		5.00%	10,452,790	696,853	696,853	1,393,705	4,181,116	3,484,263
			34,890,787	**25,134,849**	**696,853**	**1,393,705**	**4,181,116**	**3,484,263**

46.10 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

Consumer Debtors comprise of a large number of consumers, dispersed across different industries and geographical areas within the jurisdiction of the municipality. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

	2010 R	2009 R
Long-term Receivables	-	7,695
Consumer Debtors	68,994,265	-
Other Debtors	18,642,267	24,395,431
Bank, Cash and Cash Equivalents	342,084,802	254,765,637
Maximum Credit and Interest Risk Exposure	**429,721,334**	**279,168,763**

Credit quality of Financial Assets:

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2010 R	2009 R
Long-term Receivables		
Group 1	-	7,695
Total Long-term Receivables	**-**	**7,695**
	-	-
Consumer Debtors		
Counterparties without external credit rating:-		
Group 1	-	-
Group 2	21,012,537	-
Group 3	179,969,796	-
	200,982,333	-
Total Consumer Debtors	**200,982,333**	**-**
Other Debtors		
Group 1	907,732	808,590
Group 2	-	-
Group 3	22,317,433	45,659,152
Total Other Debtors	**23,225,165**	**46,467,743**
Bank and Cash Balances		
First National Bank	342,080,262	254,761,097
Cash Equivalents	4,540	4,540
Total Bank and Cash Balances	**342,084,802**	**254,765,637**

Credit quality Goupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.
Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

47. MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

Chris Hani District Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
(iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R10,1 million (2009: R6,2 million) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED BENEFIT SCHEME

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2009.

The statutory valuation performed as at 30 June 2009 revealed that the fund had a surplus of R0,0 (30 June 2008: R182,7) million, with a funding level of 100,0% (30 June 2008: 106,5%). The balance of the Solvency Reserve was R220,6 (30 June 2008: R0,0) million. The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is less than the recommended contribution rate of 32,1%.

Subsequent to the last annual actuarial valuation report, an investigation of the investment return revealed that the actual investment return is -0,94% and that the shortfall in the investment returns in respect of the defined benefits component of the fund is R195 856 424. In terms of Rule 17(5) of the fund the municipality's pro rata share of the shortfall amounts to R567 984 which is due and payable.

Government Employees Pension Fund (GEPF):

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2006.

The statutory valuation performed as at 30 June 2006 revealed that the fund had a surplus of R0,0 (30 June 2004: deficit of R12,8) million, with a funding level of 100,0% (30 June 2004: 96,5%). The contribution rate paid by the members (7,00%) and the municipalities (13,00%) is sufficient to fund the benefits accruing from the fund in the future.

South African Local Authorities Pension Fund (SALA):

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 1 July 2009.

The statutory valuation performed as at 1 July 2009 revealed that the fund had a deficit of 264,2 (1 July 2007: Surplus of R558,4) million, with a funding level of 96% (1 July 2007: 110%). The contribution rate paid by the members (7,50% to 9,00%) and the municipalities (15,00% to 20,80%) is sufficient to fund the benefits accruing from the fund in the future.

Although the fund is less than 100% funded at the valuation date, no additional action is required at this stage to rectify the situation. If the current employer contribution rate is maintained, the fund is expected to be close to 100% funded at the next tri-annual valuation, provided the assumptions are borne out in practice.

DEFINED CONTRIBUTION SCHEMES

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2009.

The statutory valuation performed as at 30 June 2009 revealed that the investment reserve of the fund amounted to R1 171 (30 June 2008: R12 033) million, with a funding level of 100,3% (30 June 2008: 103,3%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2009.

The statutory valuation performed as at 30 June 2009 revealed that the assets of the fund amounted to R6 842 (30 June 2008: R6 675) million, with funding levels of 100,8% and 131,9% (30 June 2008: 101,1% and 112,2%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2006.

The statutory valuation performed as at 30 June 2006 revealed that the fund had a funding ratio of 106.5%. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

The next statutory valuation was due at 30 June 2009, but an extension has been granted until 31 December 2010.

Liberty Life Pension Fund:

No details could be provided for the fund and of any valuation performed.

SANLAM Annuity Fund:

No details could be provided for the fund and of any valuation performed.

SANLAM Retirement Fund:

No details could be provided for the fund and of any valuation performed.

None of the above mentioned plans are State Plans.

48. RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

48.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Director of Wilfradan Investments (Pty) Ltd
Birch J	Councillor	Director of Wilfradan Investments (Pty) Ltd
Bobo T	Councillor	100% Membership in Lingelihle Glass Fitters CC; 50% Membership in Ilinge Labatsha Development CC
Gobinca M	Councillor	50% Membership in Shine & Brilliant General Trading CC
Gunuza NL	Councillor	Director of Lembede Investment Holdings (Pty) Ltd; Director of Lembede Strategic Investment
James LE	Councillor	Director of EC Agricultural Co-op; 33% Membership in Palgro Property Investments CC
Koyo MC	Councillor	100% Membership in MBK Consulting Services CC
Mbolo S	Councillor	25% Membership in Amandla Construction CC; 25% Membership in Monde Skosana Building Construction
Nobongoza TP	Councillor	Director of Sakhisizwe Multipurpose Resource Centre (Section 21 Company)
Nontsele M	Councillor	33,33% Membership in Izibele Management Services CC
Pasha NM	Councillor	Director of Engcobo Housing Project (Section 21 Company)
Plata SD	Councillor	100% Membership in Daves Energy Distribution CC
Sigabi MS	Councillor	Director of EC Socio-Economic Consultative Council (Section 21 Company)
Taljaard J	Councillor	33,33% Membership in Essential Properties 166 CC
Twala B	Councillor	Director of Kuthalani Agricultural
Vimbayo K	Councillor	Director of Border Rural Committee (Section 21 Company); 50% Membership in Sikho Social Development Facilitators CC
Zenzile M	Councillor	Director of Cradock Masizame (Section 21 Company)
Dyasi-De Lange MP	Manager	50,02% Membership in Siyaphuhlisa Consulting Services CC
Fumbeza N	Manager	33,33% Membership in Thembalobom Manufacturing and Enterprise CC
Jaxa-Dusubana V	Manager	33,33% Membership in Seven Mile Trading 132 CC
Lynch JEDV	Manager	100% Membership in Ke-Rometsi Transport Services CC
Makonza A	Manager	100% Membership in Seasons Find 1260 CC
Mbambisa MS	Manager	100% Membership in Booi Mbambisa & Associates CC; 16.66% Membership in Mulepele Trading Enterprise CC
Mdleleni A	Manager	50% Membership in Ikhwezi Mediation & Development Services CC
Myataza-Ntshinga NJ	Manager	50% Membership in LX Financial Services CC
Shasha MM	Manager	100% Membership in Worldwatch Trading 123 CC; 50% Membership in Safika Rural Development Consultants CC

48.2 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in Note 12 to the Annual Financial Statements.

48.3 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 27 and 28 respectively, to the Annual Financial Statements.

48.4 Purchases from Related Parties

The municipality bought goods from the following companies, which are considered to be Related Parties:

Company Name	Related Person	Company Capacity	Municipal Capacity	Purchases for the Year (2010)	Purchases for the Year (2009)
East Cape Agricultural	James LE	Director	Councillor	8,873	107,108
Worldwatch Trading 123 cc	Shasha MM	Member	Manager	77,823	7,562
Total Purchases				**86,697**	**114,670**

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

	2010 R	2009 R
49.1 Guarantees:	**20,000**	**20,000**

(I) A bank guarantee in the amount of R20 000 issued in favour of the South African Post office Limited to cover the municipality's postal account.

49.2 Court Proceedings:	**3,999,846**	**3,780,662**

(i) The Board of Trustees for Qamata Irrigation Scheme instituted interdict proceedings in the Development Tribunal, Bisho. The municipality cited as 3rd respondent. The defendant successfully resisted the application by the Board of Trustees. Legal fees are to be recovered from the ligitants. The claim amounts to R100 184.

(ii) The Municipal Employees Pension Fund brought an action against the municipality for outstanding payment of contributions to the Fund in respect of councillors in the amount of R322 950. The particulars of the claim are still in process of being amended. The outcome of the action is still uncertain.

(iii) Reticulation Design Project Services was appointed by the municipality for the upgrading of streets and storm water drainage, and the building of VIP toilets. RDP Services has instituted action against the municipality for the recovery of payments to the amount of R2 501 111 alledgedly not made. The matter has been postponed due to new amendments by the defendant. The outcome of the case is still uncertain.

(iv) The municipality was requested for payment of the amount of R11 601 for goods sold and delivered by East Cape Agricultural Cooperative Ltd. The claim is not disputed and the claimant was requested to provide proper invoices, which has allegedly been done. The matter was decided in favour of the claimant.

(v) The municipality has been sued by CB Nkukwana for an outstanding

travelling cost in the amount of R4 693 due to him as a member of the Audit Committee, arising from extensive travelling between Butterworth and Queenstown to attend meetings. Since the municipality has proof that the claimant was paid in full, the claim was being defended. Subsequently, claimant failed to file his Discovery Affidavit and the claim was dismissed. The taxed costs are being collected and a warrant of execution was issued.

(vi) Sidi Parini (Pty) Ltd is claiming an amount of R330 418 from the municipality for fertilizer allegedly sold and delivered in terms of a verbal agreement. Subsequently, the municipality has paid the capital and a reduced amount in respect of interest.

(vii) Frikton CC is claiming an amount of R488 600 from the municipality in respect of a cession in their favour for services rendered as sub-contractor to Ikamva Civils. The matter is still underway and moving towards trial. The outcome of the case is still uncertain.

(viii) A dispute has arisen over payment of an outstanding amount of R587 000, plus legal costs, allegedly owed for work completed by Joe & Anga Viwe Civils CC, appointed to undertake construction work. The matter has been referred for arbitration. Settlement options have been investigated and presented to claimant, but an agreement has yet to be reached. The outcome of the matter is unknown at this stage.

51. CONTINGENT ASSETS

50.1 Court Proceedings:	**300,353**	**2,950,000**

(i) The municipality is sueing Thusano Construction for an amount of R300 353 in respect of an over-payment on the contract. The company denies liability. No documents to support the claim have been provided to date. The outcome of the legal processes is unknown at this stage.

(ii) The municipality is sueing Nyika Investments for an amount of apprximately R2 500 000 in respect of a business plan and the development of commercial enterprises. Nothing resulted from the business plan and the contractor did not provide the services for which they were contracted. To date the debtor could not be located to identify any assets that can be attached. The debt has been written off in the mean time.

51. COMPARISON WITH THE BUDGET

Budgeted amounts for expenditure have been exceeded as indicated below:

Category of Expendituret	30 June 2010		20 June 2009	
	Budgeted Amount R	Actual Amount R	Budgeted Amount R	Actual Amount R
Employee Related Costs	100,826,819	108,406,199	-	-
Impairment Losses	-	7,194,127	-	13,573,358
Repairs and Maintenance	2,704,475	21,951,502	-	-
Finance Costs	-	-	471,291	486,536
Bulk Purchases	2,000,000	12,265,344	-	-
Contracted Services	318,818	35,499,558	-	-
General Expenses	58,016,369	81,185,820	-	-
Loss on Disposal of Property, Plant and Equipment	-	390,524	-	17,939

The excess expenditure has not been authorised and is disclosed as such in Note 43.1.

The excess expenditure is to a large extent caused by the integration of the transactions incurred by the Local Municipalities for Sanitation and Water Services into the municipality's records, which transactions have not been budgeted for.

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure for the current year, together with an explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

52. IN-KIND DONATIONS AND ASSISTANCE

The municipality received the following in-kind donations and assistance:

(i) Secondment of International DED Advisor by the German Development Service for one year

53. PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the financial year 2009/2010.

54. EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2010.

55. COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Changes in Accounting Policies (Note 37) and Prior Period Errors (Note 38).

56. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorisation of these Annual Financial Statements the municipality has not applied the following GRAP standards that have been issued, but are not yet effective:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
- GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers) - issued February 2008
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- GRAP 25 Employee Benefits - issued December 2009
- GRAP 26 Impairment of Cash-generating Assets - issued March 2009
- GRAP 103 Heritage Assets - issued July 2008
- GRAP 104 Financial Instruments - issued October 2009

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

Management has considered all the GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

Appendix A
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

Details	Original Loan Amount R	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2009 R	Received during the period R	Redeemed / Written off during Period R	Balance at 30 June 2010 R
ANNUITY LOANS								
DBSA	10,000,000	5.00%	101215/1	30/09/2016	8,626,446	-	974,365	7,652,081
Total Annuity Loans	**10,000,000**				**8,626,446**	**-**	**974,365**	**7,652,081**
TOTAL EXTERNAL LOANS	**10,000,000**				**8,626,446**	**-**	**974,365**	**7,652,081**

ANNUITY LOANS:

DBSA:

Structured unsecured 10 year loan for eradication of bucket system. Original loan capital of R10 000 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value	Additions 2010
	R	R	R	R	R	R	R	R	R	R	R	R	R
Land and Buildings													
Carports	41,802	72,600	-	-	-	114,402	11,802	-	-	-	11,802	102,600	-
Houses	372,486	-	-	-	-	372,486	149,001	-	-	-	149,001	223,485	-
Land	3,650,000	-	-	-	-	3,650,000	-	-	-	-	-	3,650,000	
Office Buildings	14,148,333	-	-	-	-	14,148,333	2,254,631	-	-	-	2,254,631	11,893,702	-
Park Homes	118,505	-	-	-	-	118,505	5,305	-	-	-	5,305	113,200	-
	18,331,126	72,600	-	-	-	18,403,726	2,420,739	-	-	-	2,420,739	15,982,987	-
Infrastructure													
Sewerage:													
Purification Works	5,200,771	-	2,849,274	-	-	8,050,044	-	-	-	-	-	8,050,044	-
Reticulation	3,325,317	-	36,421,548	5,421,174	-	45,168,039	-	-	-	-	-	45,168,039	72,214,811
Water:													
Dams and Weirs	350,089	-	-	-	-	350,089	-	-	-	-	-	350,089	-
Pumping Stations	129,622	-	7,223,804	-	-	7,353,426	-	-	-	-	-	7,353,426	-
Purification Plant	147,679	-	4,463,532	-	-	4,611,211	-	-	-	-	-	4,611,211	-
Reservoirs and Tanks	-	-	7,618,720	-	-	7,618,720	-	-	-	-	-	7,618,720	-
Supply and Reticulation	5,235,496	-	217,780,151	54,857,351	-	277,872,998	-	-	-	-	-	277,872,998	156,285,189
	14,388,975	-	276,357,027	60,278,525	-	351,024,528	-	-	-	-	-	351,024,528	228,500,000

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance R	Additions R	Under Construction R	Transfers R	Disposals R	Closing Balance R	Opening Balance R	Additions R	Transfers R	Disposals R	Closing Balance R	Value R	Additions 2010 R
Community Assets													
Recreational Facilities:													
Fountains	11,471	-	-	-	-	11,471	9,360	-	-	-	9,360	2,111	-
Other Facilities:													
Clinics and Hospitals	100,000	-	-	-	-	100,000	53,336	-	-	-	53,336	46,664	-
Community Centres	168,341	-	-	-	(168,341)	-	67,339	-	-	(67,339)	-	-	-
Fencing	19,136	-	-	-	-	19,136	19,136	-	-	-	19,136	-	-
Security Systems	59,623	-	-	-	-	59,623	44,639	-	-	-	44,639	14,984	-
	358,571	-	-	-	(168,341)	190,230	193,810	-	-	(67,339)	126,471	63,759	-
Other Assets													
Emergency Equipment:													
Ambulance Equipment	43,293	-	-	-	(43,293)	-	43,293	-	-	(43,293)	-	-	-
Emergency Lights	288	-	-	-	(288)	-	288	-	-	(288)	-	-	-
Fire Equipment	20,582	-	-	-	(30)	20,552	8,491	-	-	(30)	8,461	12,091	-
Fire Hoses	21,709	-	-	-	(53)	21,656	6,256	-	-	(53)	6,203	15,453	-

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value	Additions 2010
	R	R	R	R	R	R	R	R	R	R	R	R	R
Furniture and Fittings:													
Cabinets and Cupboards	646,298	85,713	-	-	(77,285)	654,726	317,804	-	-	(10,126)	307,678	347,048	-
Chairs	399,243	82,091	-	-	(1,984)	479,350	254,435	-	-	(1,984)	252,451	226,899	-
Kitchen Equipment	93,955	5,489	-	-	(1,388)	98,056	21,766	-	-	(1,388)	20,378	77,678	-
Other Furniture	389,162	50,567	-	-	(97,317)	342,412	231,007	-	-	(97,317)	133,690	208,722	217,550
Tables and Desks	468,177	166,885	-	-	(8,247)	626,815	262,396	-	-	(8,247)	254,150	372,666	-
Motor Vehicles:													
Fire Engines	1,515,603	-	-	-	-	1,515,603	270,760	-	-	-	270,760	1,244,843	-
Motor Cars	3,744,342	839,026	-	-	(117,407)	4,465,961	1,079,405	-	-	(117,407)	961,998	3,503,963	-
Trucks and Bakkies	7,886,731	28,707,900	-	-	(256,000)	36,338,631	2,302,426	-	-	-	2,302,426	34,036,205	900,000
Office Equipment:													
Air Conditioners	356,891	23,391	-	-	-	380,282	348,003	-	-	-	348,003	32,279	-
Computer Hardware	3,685,955	646,411	-	-	(376,798)	3,955,568	2,518,020	-	-	(342,513)	2,175,507	1,780,061	580,000
Office Machines	460,662	135,180	-	-	(33,407)	562,436	372,062	-	-	(32,755)	339,306	223,129	-
Other Office Equipment	478,972	4,240	-	-	(39,166)	444,046	261,720	-	-	(25,870)	235,849	208,197	-

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value	Additions 2010
	R	R	R	R	R	R	R	R	R	R	R	R	R
Laboratory Equipment	-	70,067	-	-	-	70,067	-	-	-	-	-	70,067	100,000
Lawnmowers	19,903	-	-	-	(3,811)	16,092	13,995	-	-	(3,811)	10,184	5,908	-
Mobile Clinics	156,000	-	-	-	(104,000)	52,000	156,000	-	-	(104,000)	52,000	-	500,000
Other Plant and Equipment	706,462	539,475	-	-	(6,434)	1,239,503	17,517	-	-	(6,434)	11,083	1,228,420	900,000
Radio Equipment	72,981	-	-	-	(66,206)	6,775	72,981	-	-	(66,206)	6,775	-	200,000
Satelite Tracking Equipment	113,465	-	-	-	-	113,465	101,783	-	-	-	101,783	11,682	-
Tractors	636,538	-	-	-	-	636,538	193,716	-	-	-	193,716	442,823	-
Trailers	130,703	-	-	-	-	130,703	24,698	-	-	-	24,698	106,005	-
	24,642,268	31,356,436	-	-	(1,233,113)	54,765,592	10,106,001	-	-	(861,721)	9,244,280	45,521,311	3,397,550
Total	57,720,940	31,429,037	276,357,027	60,278,525	(1,401,453)	424,384,076	12,720,550	-	-	(929,060)	11,791,490	412,592,586	231,897,550

ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2010

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value	Additions 2010
	R	R	R	R	R	R	R	R	R	R	R	R	R
Investment Properties													
Land	100	-	-	-	-	100	-	-	-	-	-	100	-
	100	-	-	-	-	100	-	-	-	-	-	100	-

ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2010

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value	Additions 2010
	R	R	R	R	R	R	R	R	R	R	R	R	R
Intangible Assets													
Computer Software	2,597,229	-	-	-	(154,607)	2,442,622	2,597,039	-	-	(154,417)	2,442,622	-	-
	2,597,229	-	-	-	(154,607)	2,442,622	2,597,039	-	-	(154,417)	2,442,622	-	-
Total Asset Register	60,318,270	31,429,037	276,357,027	60,278,525	(1,556,061)	426,826,798	15,317,589	-	-	(1,083,477)	14,234,112	412,592,686	231,897,550

Appendix C

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value	Additions 2010
	R	R	R	R	R	R	R	R	R	R	R	R	R
Executive and Council	6,100,063	-	-	-	(134,261)	3,453,342	-	-	(134,261)	3,319,082	2,646,720		
Finance and Administration	30,617,495	26,522,626	-	-	(955,368)	7,548,084	-	-	(585,473)	6,962,611	49,222,142	-	-
Planning and Development	2,543,560	99,774	-	-	(60,775)	1,054,175	-	-	(51,331)	1,002,844	1,579,714	-	-
Health	2,262,369	71,267	-	-	(236,539)	1,594,872	-	-	(159,949)	1,434,923	662,174		
Community and Social Services	310,311	2,270,631	-	-	(13,472)	132,035	-	-	(8,654)	123,381	2,444,089		
Housing	-	-	-	-	-	-	-	-	-	-	-	412,592,686	231,897,550
Public Safety	3,938,276	2,464,739	-	-	(149,510)	1,508,706	-	-	(141,841)	1,366,866	4,886,639		
Sport and Recreation	-	-	-	-	-	-	-	-	-	-	-		
Environmental Protection	-	-	-	-	-	-	-	-	-	-	-		
Waste Management	8,526,088	-	39,270,821	5,421,174	-	-	-	-	-	-	53,218,084		
Roads and Transport	118,891	-	-	-	-	6,217	-	-	-	6,217	112,673		
Water	5,901,217	-	237,086,206	54,857,351	(6,136)	20,157	-	-	(1,969)	18,188	297,820,451		
Electricity	-	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-	-		
Total	**60,318,270**	**31,429,037**	**276,357,027**	**60,278,525**	**(1,556,061)**	**15,317,589**	**-**	**-**	**(1,083,477)**	**14,234,112**	**412,592,686**		

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

2009 Actual Income R	2009 Actual Expenditure R	2009 Surplus/ (Deficit) R	Description	2010 Actual Income R	2010 Actual Expenditure R	2010 Surplus/ (Deficit) R
-	12,947,127	(12,947,127)	Executive and Council	50,000	11,428,163	(11,378,163)
1,421,295	81,696,000	(80,274,705)	Finance and Administration	1,147,684	33,355,181	(32,207,497)
-	4,970,385	(4,970,385)	Planning and Development	-	6,243,304	(6,243,304)
-	10,147,161	(10,147,161)	Health	-	10,745,984	(10,745,984)
5,600	2,330,026	(2,324,426)	Community and Social Services	-	2,900,438	(2,900,438)
-	-	-	Housing	-	-	-
-	3,897,792	(3,897,792)	Public Safety	-	4,600,377	(4,600,377)
-	-	-	Sport and Recreation	-	-	-
300,388	2,079,621	(1,779,234)	Environmental Protection	482,821	2,890,573	(2,407,751)
-	-	-	Waste Management	-	-	-
-	6,908,400	(6,908,400)	Roads and Transport	-	3,703,573	(3,703,573)
-	75,991,179	(75,991,179)	Water	53,439,991	258,921,968	(205,481,977)
-	-	-	Electricity	-	-	-
467,183,493	123,389,377	343,794,117	Other	534,831,860	157,130,804	377,701,056
468,910,776	324,357,069	144,553,707	Sub-Total	589,952,356	491,920,364	98,031,992
-	-	-	Less: Inter-departmental Charges	-	-	-
468,910,776	**324,357,069**	**144,553,707**	**Total**	**589,952,356**	**491,920,364**	**98,031,992**

Appendix E(1)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2010

Description	2009/2010 Actual R	2009/2010 Budget R	2009/2010 Variance R	2009/ 2010 Variance %	Explanation of Significant Variainces greater than 10% versus budget
REVENUE					
Service Charges	53,165,385	500,000	52,665,385	99.06	Revenue from Local Municipalities not budgeted for
Rental of Facilities and Equipment	149,491	72,000	77,491	51.84	Revenue from Local Municipalities not budgeted for
Interest Earned - External investments	21,052,602	16,154,091	4,898,511	23.27	Improved cash flow not budgeted for
Interest Earned - Outstanding debtors	-	12,000	(12,000)	0.00	Negligent Amount
Government Grants and Subsidies	513,779,361	570,277,130	(56,497,769)	(11.00)	
Other Income	1,755,518	500,000	1,255,518	71.52	Revenue not budgeted for
Public Contributions and Donations	50,000	-	50,000	100.00	Negligent Amount
Total Revenue	**589,952,356**	**587,515,221**	**2,437,135**	**0.41**	
EXPENDITURE					
Employee Related Costs	108,406,199	100,826,819	7,579,380	6.99	
Remuneration of Councillors	5,460,050	5,622,993	(162,943)	(2.98)	
Collection Costs	-	545,480	(545,480)	0.00	
Depreciation	-	1,071,796	(1,071,796)	0.00	Depreciation not calculated in terms of ASB Directive 4 exemptions
Impairment Losses	7,194,127	-	7,194,127	100.00	Expenditure not budgeted for
Repairs and Maintenance	21,951,502	2,704,475	19,247,027	87.68	Expenditure from Local Municipalities not budgeted for
Interest Paid	484,431	493,470	(9,039)	(1.87)	
Bulk Purchases	12,265,344	2,000,000	10,265,344	83.69	Expenditure from Local Municipalities not budgeted for
Contracted Services	35,499,558	318,818	35,180,740	99.10	Expenditure from Local Municipalities not budgeted for
Grants and Subsidies Paid	219,082,809	415,915,001	(196,832,192)	(89.84)	Budgeted for expenditure now capitalised
General Expenses	81,185,820	58,016,369	23,169,451	28.54	Expenditure from Local Municipalities not budgeted for
Loss on disposal of Property, Plant and Equipment	390,524	-	390,524	100.00	Loss on impaired assets
Total Expenditure	**491,920,364**	**587,515,221**	**(95,594,857)**	**(16.27)**	
	-	-			
NET SURPLUS / (DEFICIT) FOR THE YEAR	**98,031,992**	**-**	**98,031,992**	**0.00**	

ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2010

Description	2009/2010 Actual R	2009/2010 Total Additions	2009/2010 Budget R	2009/2010 Variance R	2009/ 2010 Variance %	Explanation of Significant Variainces greater than 10% versus budget
Finance and Administration	26,522,626	26,522,626	506,100	26,016,526	5,140.59	Portion of budget under Waste Management
Planning and Development	99,774	99,774	228,450	(128,677)	(56.33)	Projects did not realise
Health	71,267	71,267	-	71,267	0.00	Expenditure incurred is not material
Community and Social Services	2,270,631	2,270,631	2,663,000	(392,369)	(14.73)	Savings in project expenditure
Public Safety	2,464,739	2,464,739	-	2,464,739	0.00	Budget under Waste Management
Waste Management	-	39,270,821	72,214,811	(32,943,990)	(45.62)	Some expenditure incurred under other Departments
Water	-	237,086,206	156,285,189	80,801,017	51.70	Projects previously expensed, not budgeted for (see Appendix E(1))
Total	**31,429,037**	**307,786,064**	**231,897,550**	**75,888,514**	**32.73**	

Appendix F

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 0F 2003

Grants and Subsidies Received

Name of Grant		Financial Management Grant	Municipal Infrastructure Grant	Equitable Share Grant	Regional Bulk Infrastructure Grant	Water Services Operating Subsidy Grant	Rural Transport Services & Infrastructure	Municipal Systems Improvement Grant	Total Grants and Subsidies Received
Name of Organ of State or Municipal Entity		Nat Treasury	MIG	Nat Treasury	DWAF	DWAF	Dept Transport	DPLG	
Quarterly Receipts	June	0		0	0	2,883,510	0	0	2,883,510
	Sept	750,000	59,205,000	93,252,540	0	2,996,356	0	735,000	156,938,896
	Dec	0	29,721,804	74,602,032	0	2,801,529	3,498,000	0	110,623,365
	March	0	55,004,586	55,951,524	25,680,606	6,268,825	6,302,000	0	149,207,542
	June	0	43,409,749	0	22,082,347	2,646,050	0	0	68,138,146
Quarterly Expenditure	June	473,575	9,533,210	44,721,482	11,650,000	3,073,000	0	1,739,096	71,190,363
	Sept	358,650	32,487,817	55,951,524	10,870,236	3,378,004	529,005	0	103,575,236
	Dec	581,657	46,907,889	55,951,524	10,870,236	2,963,945	1,114,728	759,535	119,149,512
	March	209,824	23,441,951	55,951,524	10,870,236	3,131,511	442,921	148,283	94,196,249
	June	460,745	35,042,973	55,951,524	10,870,236	1,933,655	2,991,198	547,059	107,797,389

Name of Grant		Financial Management Grant	Municipal Infrastructure Grant	Equitable Share Grant	Regional Bulk Infrastructure Grant	Water Services Operating Subsidy Grant	Rural Transport Services & Infrastructure	Municipal Systems Improvement Grant	Total Grants and Subsidies Received
Grants and Subsidies Delayed / Withheld	June	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
	Swept	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
	Dec	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
	March	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
	June	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Reason for Delay / Withholding of Funds		N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Compliance to Revenue Act (*) See below	Yes / No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Reason for Non-compliance		N/A	N/A	N/A	N/A	N/A	N/A	N/A	

(*) Did your municipality comply with the grant conditions in terms of "Grant Framework" in the latest Division of Revenue Act?

Audit Committee Report for the Year Ended 30 June 2010

Report of the Audit Committee (AC) issued in terms of the Municipal Finance Management Act NO. 56 of 2003 (MFMA), for the year ended 30 June 2010.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE OF MEETINGS

The AC consists of the members listed hereunder and meets at least four times per annum as per its terms of reference. During the current reporting period six meetings were held. All the members of the AC are independent.

Details of meetings attended during the year then ended are:

Name	No of Meetings Attended
Mr. A. Yeboah [ACCA, MSc (UK)] (Chairperson)	6
Mrs. T. Puzier [B.Com (UCT)]	6
Ms. Z. Madikazi [CA (SA)]	4

AC RESPONSIBILITIES

The AC's role is to assist the Municipality in attending to matters affecting both financial administration, Internal and External Auditing. It strives to achieve this by operating within the AC Charter which was adopted by the Committee.

The AC continued its highly valued professional relationship with the Office of the Auditor General and the committee wishes to acknowledge the value it attaches to the Auditor General's recommendations.

INTERNAL CONTROL ISSUES

Good corporate governance principles dictate that risks and deficiencies identified and reported should be timeously addressed.
In view, thereof, Management addressed risk management identification by engaging an external expert in risk management.

The AC recommends that the manner and attitude of management towards risk management must be taken more seriously since the very process underscores how the external auditor will view the risk appetite of the municipality.

THE EFFECTIVENESS OF INTERNAL AUDIT

In line with the MFMA and the King III Report on Corporate Governance, the internal audit function provides Management and the AC with assurance that the internal controls are appropriate and effective. This is achieved by means of risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

The AC confirms that after conducting Internal Audit Assessment, the unit could be relied upon by the AC in performing its oversight duties.

CHDM AS A WATER SERVICES PROVIDER (WSP)

The AC strongly recommends total review of the agreements between CHDM and the Local Municipalities. The current condition is the main driver or the cause of the audit opinion, and without this review, CHDM will continue to receive disclaimer opinion.

EVALUATION OF ANNUAL FINANCIAL STATEMENTS

Provision of annual financial statements (AFS) by management and its subsequent review by the committee needs to comply with time schedules to achieve maximum effect. The committee is concerned with late submission of the annual financial statements for the reporting period. As a result the committee could not have enough time to effectively and adequately review the AFS to its fullest satisfaction.

The committee strongly recommends that management prepare monthly management accounts, which will culminate in quarterly reports for audit committee review. This is the only way to eliminate delays in preparing AFS at year end annually.

The AC agrees and accepts the Office of the Auditor General's conclusions (report) on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report.

EVALUATION OF AUDIT COMMITTEE

The AC conducted its self assessment during the period. The assessment revealed that there is a gap between the council and the committee. Hence a workshop was conducted with the mayorial council to address the problem.

An agreement has been reached between the AC and the Auditor General to involve the former in the initial planning of subsequent audits as the committee has been denied the opportunity to discuss the audit process. For instance, the AC should be involved when audit fee is being discussed.

Performance Audit Committee Report for the Year Ended 30 June 2010

1. INTRODUCTION

A performance audit is an independent auditing process aimed at ensuring that satisfactory management measures have been instituted to confirm that resources are both acquired economically as well as used efficiently and effectively. Essentially, it entails "optimal (best) use of available resources", to achieve the stated goals", in the "least expensive way"

The objective of this report is to comment on the draft Chris Hani District Municipality (CHDM) Annual Report 2009/10.

In commenting on the draft CHDM Annual Report 2009/10, we have limited our objectives to commenting on major challenges facing Chris Hani District Municipality.

2. COMMENTS ON CHALLENGES FACING CHDM

The concerns of the Performance Audit Committee in terms of the overall performance of the Chris Hani District Municipality include:

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- The CHDM has faced major challenges in the past year with the most notable being the vacant posts, and especially that of the Strategic Manager. The Strategic Manager's vacancy has been a serious concern since the 2007/08 financial year.
- The failure to fill vacant positions timeously and the relatively high labour turnover rate placed the district municipality under great strain, hampering it in effectively executing its responsibilities. This was highlighted in the 2008/09 Annual Report.
- It must also be highlighted that the Chief Financial Officer (CFO) has only been in office for six months of the 2009/10 financial period.
- It is noted that internal controls have improved for the year under review; however there are still notable improvements that could be achieved.
- The CHDM has a serious challenge regarding office space, which hass inhibited performance and staff morale.
- The Performance Audit Committee has raised concerns regarding the dire need of refining Water Administration Systems processes.
- The current internal audit unit lacks the technical skills to audit certain areas (eg. engineering projects) that pose a high risk. The committee propose that Council contracts the services of specialists on a bi-annual basis to perform this task.

3. CONCLUSION

An Oversight Committee of Council has recently been established and there is great expectation in terms of assisting with performance and service delivery.

Going forward, we again appeal that an external service provider be engaged to perform a complete performance audit of CHDM, and then the committee can focus and target certain underperforming areas.

SIGNED BY Dr W. Plaatjes (Chairperson)
ON BEHALF OF THE PERFORMANCE AUDIT COMMITTEE

21 January 2011
Date

Report of the Auditor-General

TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF CHRIS HANI DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010.

Report on the Financial Statements

INTRODUCTION

1. I was engaged to audit the accompanying financial statements of the Chris Hani District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, the statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information and the accounting officer's report, as set out on pages 32 to137. Correct?

ACCOUNTING OFFICER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR-GENERAL'S RESPONSIBILITY

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa and section 126(3)(d) of the MFMA my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

REVENUE – SERVICE CHARGES

4. The municipality has accounted for the water services revenue and debtors for the first time in this financial year. However this is a correction of an error and the municipality should have accounted for these transactions in the previous year. GRAP 3 requires errors to be corrected retrospectively and for all opening balances of balance sheet items to be restated, The municipality has not retrospectively accounted for the water transactions and as a result, comparative figures for revenue and debtors are understated by an unknown amount. The lack of records pertaining to the prior year did not permit application of alternative procedures to ascertain the amounts.

5. The municipality is a Water Services Authority (WSA) and the local municipalities have been appointed as the Water Services Providers (WSP). Revenue is collected at the local municipalities and then recorded in the financial statements of the district municipality. The general ledgers at the water service provider's do not agree to the billing reports and to the ring fenced annual financial statements. The municipality was unable to provide sufficient appropriate audit evidence in support of these variances. The municipality's accounting records did not permit the application of alternative procedures to this revenue. As a result, the occurrence, completeness and accuracy of water revenue of R53 165 385 and completeness, existence and valuation of consumer debtors of R68 994 265 could not be confirmed.

6. Sufficient appropriate audit evidence was not obtained for revenue transactions amounting to R1 508 531 as the municipality did not submit the requested information. The municipality's accounting records did not permit the application of alternative procedures. As a result, the occurrence, completeness and accuracy of water revenue could not be confirmed.

7. There was no adequate system of control over water revenue at the WSP on which I could rely for the purpose of my audit. Consumers were billed at incorrect rates, some were not billed for water for the year, and some were billed only the basic charge. Faulty meters are not replaced and meter readings are not taken regularly or in some instances not at all for the year. In addition, the valuation rolls are incomplete which results in some consumers not being billed for the water consumption. As a result revenue Is understated by R8, 074,928 and consumer debtors are understated by the same amount.

8. The municipality did not record consumer debtors relating to the Inxuba Yethemba WSP. As a result consumer debtors and revenue are understated by R54 368 432.

9. The municipality did not classify interest income that is charged on long outstanding debtors separately in the statement of financial performance. As a result service charges are overstated by R2 686 065 and interest is understated by the same amount.

RECEIVABLES FROM EXCHANGE TRANSACTIONS

10. Receivables from exchange transactions relating to the water services revenue do not agree to the general ledgers at the local municipalities and is misstated by R44 141 022. Furthermore, the general ledgers at the local municipalities do not agree to the age analyses. It was not possible to perform alternative procedures to determine which amounts are correct. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights, completeness, and valuation and allocation of consumer debtors of R200 982 333 as disclosed in note 4 to the financial statements.

11. The municipality disclosed an amount of R68 994 265 as consumer debtors In note 4 to the annual financial statements. I could not confirm existence and recoverability of debtors amounting to R29 883 713. The debtors are long outstanding and have not made payments towards their outstanding accounts during the financial year. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence of consumer debtors to the value of R29 883 713.

12. The provision for doubtful debts of R131 988 068 was not calculated in terms of the applicable accounting standards. The provision for doubtful debts calculation was done based on all outstanding debtors that are greater than 30 days excluding debtors relating to government departments. A re-calculation of the provision performed using the best estimates available at the time revealed that the provision for doubtful debts is understated by R124 423 814. As a result consumer debtors are overstated by R124 423 814 and expenditure is understated by the same amount.

OTHER RECEIVABLES

13. The entity disclosed an amount of R18 642 267 as other receivables in note 5 to the financial statements. I could not confirm existence of debtors amounting to R3 036 370. The debtors were transferred from the old financial accounting system to the current financial account system and no supporting documents have been retained. Furthermore, the debtors are long outstanding and have not made any payments toward their outstanding balances. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights and valuation and allocation of other receivables of R18 642 267 as disclosed in note 5 to the financial statements.

ACCUMULATED SURPLUS

14. The accumulated surplus balance of R550 229 704 as disclosed in the financial statements does not agree to the amount as per the trial balance. An adjustment of R223 356 947 was processed against accumulated surplus for inclusion in the financial statements but this amount was not processed in the general ledger. The municipality was unable to provide sufficient and appropriate evidence and explanations for this adjustment. The municipality's accounting records did not permit the application of

alternative audit procedures to this adjustment. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights or obligations, completeness, and valuation and allocation of the accumulated surplus as disclosed in the statement of financial position and the statement of net assets.

EXPENDITURE

15. The municipality has accounted for the water expenditure and creditors for the first time in this financial year. However this is a correction of an error and the municipality should have accounted for these transactions in the previous year. GRAP 3 requires errors to be corrected retrospectively and for all opening balances of balance sheet items to be restated. The municipality has not retrospectively accounted for the water transactions and as a result, comparative figures for expenditure and creditors are understated by an unknown amount. The lack of records pertaining to the prior year did not permit application of alternative procedures to ascertain the amounts.

16. Included in the statement of financial performance is expenditure of R377 633 591 excluding employee related costs and loss on disposal of fixed assets. The municipality did not provide payment vouchers and source documentation for purchases to the value of R18 320 922. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of expenditure to the value of R377 633 591.

17. Included in the operating expenditure recorded in the annual financial statements is expenditure to value of R135 052 566 for water services expenditure incurred by the water service providers. The expenditure transactions recorded in the annual financial statements do not agree to the general ledgers from the WSP's and appears to be understated by R10 679 528. The municipality could not provide explanations and sufficient appropriate audit evidence in support of these variances of the variances. The municipality's accounting records did not permit the application of alternative audit procedures to ascertain which amount is the correct amount. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of water services expenditure of R135 052 566.

18. Included in expenditure is expenditure from Intsika Yethu water services of R7 696 743. All expenditure was processed to one vote and split it at year end for inclusion in the financial statements of the district municipality. The basis for splitting the expenditure into the correct classifications was not obtained. The municipality's accounting records did not permit the application of alternative audit procedures. Furthermore, included in expenditure is expenditure from Inkwanca water service provider for expenditure to value of R9 548 854. The expenditure relates to the impairment loss on consumer debtors. The basis for calculating this amount was not obtained. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself on the occurrence, accuracy and classification of expenditure to the value of R17 155 597.

19. The municipality incorrectly captured invoices to the value of R5 644 876 in the financial accounting system resulting in understatement in expenditure. Furthermore expenditure to the value of R4 972 379 was incorrectly captured inclusive VAT. As a result expenditure and creditors are understated by R672 497.

20. The municipality did not account for accruals for creditors that are due at year end at the water service providers. As a result expenditure and creditors are understated by R33 288 889.

21. The time value of money has not been taken into account as per IAS 39 for the valuation of creditors and expenditure. As a result, expenditure is overstated by R5 483 674, interest paid is understated by R4 720 116 and creditors are overstated by R763 557.

22. Included in expenditure, is expenditure from Intsika Yethu WSP to the value of R2 951 088 which relates to expenditure paid to consultants. The consultants were contracted to assist the WSP in managing the water schemes. The expenditure paid to the consultants is incorrectly classified as salaries and wages. As a result employee costs is overstated by R2 951 088 and general expenditure is understated by the same amount.

TRADE AND OTHER PAYABLES

23. Creditors are understated by R51 802 229 as the municipality did not account for the liability relating to the expenditure in excess of the subsidy transferred to the Water Service Providers for the rendering of water services. A creditor of R22 276 130 has been duplicated on the creditors listing. As a result, creditors and operating expenditure are understated by R29 526 099.

24. Prior year creditors was understated by R9 767 668, being suspense accounts not cleared, adjustments and creditors with no supporting documents, understatement of retentions, understatement of overtime and transactions processed in the incorrect period. These matters were not resolved by the municipality and my opinion on the current period financial statements is also modified because of the possible effect of these matters on the current figures and the comparability of the corresponding period figures.

PROVISIONS

25. The municipality did not have sufficient internal controls regarding proper record keeping of leave forms and attendance register as well as timeous capturing of leave into the payroll system. I was unable to satisfy myself as to the accuracy and validity of leave days that were used in the leave provision calculation. There were no alternative procedure I could perform to confirm the leave days balance. Consequently, I was unable to satisfy myself as to existence, rights, valuation and completeness of the leave pay accrual amount of R5 034 367 as disclosed in note 9 to the financial Statements.

26. Provisions of R6 874 998 (2009: R5 938 709) are disclosed in the statement of financial position. The municipality has classified the annual leave balance of R5 034 367 as a provision in the statement of financial position. GRAP 19, Provisions requires the accrual for annual leave balance to be classified as Trade and other payables. As a result provisions are overstated by R5 034 367 and trade and other payables are understated by the same amount.

EMPLOYEE RELATED COSTS

27. An adjustment of R9 027 532 was processed against employee costs for inclusion in the financial statements but this amount was not processed in the general ledger. The municipality was unable to provide supporting documentation for the adjustment. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of employee related costs of R9 027 532.

28. Included in employee related costs is employee costs from Lukhanji Local Municipality for water services employees of R3 066 067. No basis for calculating this amount or a list of the employees who make up this amount could be obtained. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of expenditure of R3 066 067.

29. Prior year employee costs was misstated by R4 975 391 being overstatement of the leave provision, salaries incorrectly classified as project expenditure and overtime overstated. These matters were not resolved by the municipality and my opinion on the current period financial statements is also modified because of the possible effect of these matters on the current figures and the comparability of the corresponding period figures.

INVENTORY

30. The basis for determining the water inventory balance of R6 754 579 is not in terms of the GRAP 17 as well as the accounting policy of the municipality. The municipality has utilised the selling price (basic charge of metered water from the WSP's) as a basis for determining cost. Furthermore the municipality does have supporting documentation that substantiates the inventory quantities that were at the reservoirs at year end. There were no alternative procedures I could perform to confirm the water inventory balance. Consequently, I was unable to satisfy myself as to existence, rights, valuation and completeness of the water inventory balance of amount of R6 754 579 as disclosed in note 2 to the financial Statements.

INTEREST RECEIVED

31. The municipality did not accrue for interest on positive cash and bank balances. As a result interest income and cash and cash equivalents are understated by R3 644 390.

GOVERNMENT GRANTS AND SUBSIDIES RECEIVED

32. The municipality disclosed an amount of R513 779 361 as government grants and subsidies received in note 24 to the financial statements. The municipality incorrectly recorded revenue during the year, in respect of services that were rendered after year end. In addition supporting documentation received for the Provincial Health Subsides does not reconcile to the amount that is disclosed in the annual financial statements. The cumulative effect is that revenue is overstated by R1 231 980. Unspent Conditional Grants and Receipts are understated by the same amount.

PROPERTY PLANT AND EQUIPMENT

33. I was unable to trace moveable property plant and equipment to the value of R3 855 621 to the fixed asset register of the municipality. Furthermore, assets to the value of R1 086 037 have been incorrectly reflected as disposals in the fixed asset register. As a result property plant and equipment as disclosed note 9 of the annual financial statements is understated by R4 941 658.

VALUE-ADDED TAX RECEIVABLE

34. Disclosed in the statement of financial position and in note 6 of the annual financial statements is a VAT receivable of R32 555 598. The municipality processed a journal entry of R28 137 526 debiting VAT receivables and crediting consumer debtors. This journal relates to VAT output on the consumer debtors (R68 994 265). The output VAT on consumer debtors has been incorrectly classified as VAT Input and included in the VAT receivable balance. As a result VAT receivable is overstated by R28 137 526 and consumer debtors are understated by the same amount.

IRREGULAR EXPENDITURE

35. Operating expenditure of R38 061 531 is included in the statement of financial performance, were not procured in the manner that is required by the municipality's supply chain management policy and Municipal Supply Chain Management Regulations. This irregular expenditure has not been disclosed in the annual financial statements. As a result irregular expenditure is understated by this amount.

UNAUTHORIZED EXPENDITURE

36. Unauthorised expenditure as disclosed in note 43.1 to the financial statements states that an amount of R31 206 062 has been condoned. However, the council resolution only condones / approves R1 892 350. As a result, unauthorised expenditure awaiting authorisation is understated by R29 313 712.

COMMITMENTS

37. No commitments are disclosed in the financial statements. As a result, commitments as disclosed in note 45 to the financial statements are understated by R173 806 186.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

EMPHASIS OF MATTERS

38. I draw attention to the matters below. My opinion is not modified in respect of these matters:

RESTATEMENT OF CORRESPONDING FIGURES

39. As disclosed in note 38 of the annual financial statements the following corresponding figures have been restated to correct prior period errors that were identified; the property, plant and equipment have been restated by an amount of R224 594 887 to correctly record the infrastructure assets held by the municipality, previously expensed as grant expenditure from the MIG Grant.

- creditors have been restated by an amount of RI 237 941 to recognise the liability for workmen's compensation not yet assessed.
- grants paid have been restated by R113 595 693 in respect of assets from MIG grants that were expensed in the 2008-09 financial year.
- the disclosure note for fruitless and wasteful expenditure has been restated by R1 462 577 to disclose penalties and interest on incorrect VAT claims submitted to the South African Revenue Services in the 2008-09 financial year.

MATERIAL LOSSES (THROUGH CRIMINAL CONDUCT)/ IMPAIRMENTS

40. In note 4.3 and note 5 of the annual financial statement the municipality has disclosed impairment on debtors amounting to R136 570 966 (2009:R22 072 312). The impairment relates to debtors balances which are not recoverable and has been disclosed in the annual financial statements.

ADDITIONAL MATTERS

41. I draw attention to the matters below. My opinion is not modified in respect of these matters:

UNAUDITED SUPPLEMENTARY SCHEDULES

42. The supplementary information set out on pages ??? to ??? does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon. * Which info? Append? Notes?

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

43. As required by the PAA and in terms of General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, and financial management (internal control).

PREDETERMINED OBJECTIVES

44. Material findings on the report of predetermined objectives, as set out on pages ??? to ???, are reported below: *which info?

NON-COMPLIANCE WITH REGULATORY AND REPORTING REQUIREMENTS

45. Included below are findings related to material non-compliance with the regulatory and reporting requirements.

MUNICIPAL PLANNING AND PERFORMANCE MANAGEMENT REGULATIONS, 2001.

46. The performance audit committee did not review the performance management system of the municipality and make recommendations in this regard to the council as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

MUNICIPAL SYSTEMS ACT OF SOUTH AFRICA, NO 32 OF 2000 (MSA)

47. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the section 45 of the MSA.

48. The reported performance information to be included in the annual report does not include comparisons between performance in the current year with targets set for the current and previous financial years, as required by section 46 of the MSA.

49. The IDP of the municipality does not have key performance indicators which include input, output and outcome indicators in respect of each development priority or objective as required by section 41(a) of the MSA.

50. No evidence was obtained confirming that the IDP of the municipality was submitted to the MEC for Local Government within 10 days of the adoption or amendment of the plan in accordance with the requirements of section 32 of the MSA.

51. The municipality did not give notice to the public of the adoption of the plan, within 14 days of adoption of its IDP as required by Section 25(4) (a) of the MSA.

52. The IDP of the municipality was not reviewed and amended to align it with the mid-year budget as per the requirements of section of 34 of the MSA.

USEFULNESS OF REPORTED PERFORMANCE INFORMATION

The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

53. For the selected objectives of the planned and reported targets the following was noted:

a. 69% of the selected objectives were not well defined in that they do not have a clear and unambiguous definition and are not defined so that the data will be collected consistently.
b. 50% of the selected objectives were not specific in that they do not state the nature and required level of performance.
c. 56% of selected objectives were not time bound in specifying the time period or deadline for delivery.

54. The IDP of the municipality does not have key performance indicators which include input, output and outcome indicators in respect of each development priority or objective. As a result the annual performance report could not be traced back to the Integrated Development Plan.

RELIABILITY OF REPORTED PERFORMANCE INFORMATION

The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

- For 31% percent of the selected programme objectives; the actual results that should have been recorded in the performance report have not been recorded.

55. The supporting documentation for the following programme which is deemed to be material was not provided to determine the validity of the result that was reported in the performance report;

- Buckets Eradication Reported: 613

COMPLIANCE WITH LAWS AND REGULATIONS MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT NO. 56 OF 2003) (MFMA)

NON-ADHERENCE TO LEGISLATION

56. Contrary to the requirements set out in section 62(1)(c) of the MFMA a material amount of supporting documentation could not be provided to support operating expenditure and compliance with the Supply Chain Management Regulations.

57. Contrary to the requirements of section 62(1)(d) and 111 of the MFMA the accounting officer did not implement the municipality's supply chain management policy and also did not implement a system to prevent, detect and correct and disclose the incurrence of irregular and fruitless and wasteful expenditure.

58. Contrary to the requirements set out in section 71(1) the municipality did not by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

(a) Actual revenue, per revenue source;
(b) Actual borrowings;
(c) Actual expenditure, per vote;
(d) Actual capital expenditure, per vote
(e) The amount of any allocations received
(f) Actual expenditure on those allocations, excluding expenditure on

59. Contrary to the requirements set out in section 72 of the MFMA the accounting officer did not by 25 January assess the performance of the municipality during the first half of the financial year – taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan.

60. Contrary to the requirements set out in section 66 of the MFMA, the accounting officer did not report to the council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits, and in a manner that discloses such expenditure per type of expenditure.

61. The annual financial statements of the municipality were not submitted for audit within two months after the financial year end in terms of section 126 (1) (a) of the MFMA.

62. The annual financial statements of the municipality do fairly present the affairs of the as required by section 122(a) of the MFMA.

MUNICIPAL SUPPLY CHAIN MANAGEMENT REGULATIONS

63. Contrary to section 22 (1) (b)(i) a competitive bid to the value of over R10 million was advertised In the newspaper for less than 30 days. No expenditure has been incurred on this project during the year,

64. On the same project, contrary to section 21 (d)(ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services which is overdue for more than 30 days was not obtained from the bidder.

65. Contrary to section 18(a) all requirements in excess of R30, 000 are not advertised on the website and official notice board for 7 days.

66. Section 62 (f) of the MFMA prescribes that a municipality has and implements a supply chain management policy. Although the municipality has an approved supply chain management policy, it has not been properly implemented. Evidence of this is the material finding on irregular expenditure that is reported in the paragraphs above.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

67. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

68. Below is a summary of the internal control deficiencies that resulted in the above assessment and that gave rise to the basis for the disclaimer opinion on the financial statements as well as findings on predetermined objectives and compliance with laws and regulations. Additional information on significant internal control deficiencies is provided later in this report.

LEADERSHIP

The accounting officer did not exercise oversight over the preparation of financial statements, reporting on predetermined objectives, compliance with the laws and regulations and internal control. There is a lack of monitoring and oversight to improve upon audit outcome from the previous financial year. This was also evidenced by the numerous instances of non-compliance

with laws and regulations, internal control deficiencies and material misstatements identified in the financial statements and the report on predetermined objectives.

The critical position of the strategic manager remained vacant during the financial year. The unfilled position has resulted in a lack of accountability for the reporting on predetermined objectives and numerous misstatements which were identified in the report.

The accounting officer did not exercise oversight over adherence to the supply chain management regulations. The non-adherence to supply chain management regulations resulted in irregular expenditure of R38 061 531. The municipality did not report on the irregular expenditure incurred during the financial year. The municipality did not implement action plans to address user access control deficiencies within information and technology systems. The user account management procedures are incomplete, which might lead to users obtaining access rights that are not in line with their job responsibilities. Users' access is not periodically reviewed to ensure that it remained in line with their job responsibilities, which could result in fraudulent transactions being conducted without detection on Venue and Payday.

FINANCIAL AND PERFORMANCE MANAGEMENT

Quality, reliable annual financial statements were not submitted as material misstatements were identified in the annual financial statements that were submitted for audit. Proper reviews are not performed on the financial and performance information to ensure completeness and accuracy of submitted information.

The predetermined objective report, supporting processes was not subjected to regular review and monitoring resulting in material findings on predetermined objectives.

Record-keeping at the various local municipalities is not adequate to report on the various transactions relating to the water services function. Furthermore the municipality did not implement basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts and continuous reviewing and monitoring over the water sanitation accounts. The financial management controls over the review and evaluation of management accounts and record keeping did not support the preparation of credible financial statements.

In addition a complete, accurate and comprehensive asset register was not maintained. The asset register was not updated on a regular basis and were also not reconciled to the financial records. This has resulted in a material understatement in fixed assets recorded in the annual financial statements.

Audit trails are not reviewed which may lead to undetected unauthorised activity and negatively affect the quality of the data that is used for financial information.

GOVERNANCE

The internal audit division and performance audit committee did not fulfil their responsibilities in terms of reviewing the internal processes and procedures of the financial and performance information reporting systems.

The effectiveness of the internal audit function and audit committee was limited due to inadequate responses provided to matters to that are reported in the internal audit reports.

The municipality did not adequately monitor risks relating to the IT environment. Risks relating to the IT environment were not included in the risk assessment that was performed during the year. Furthermore the municipality does not have a formal information technology framework and an IT strategic plan.

Auditor-General

East London
14 January 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence.